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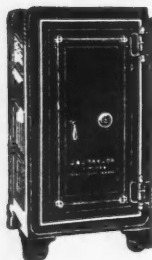
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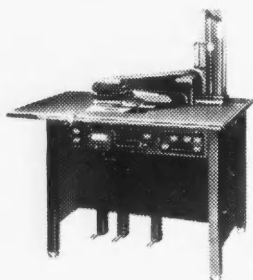
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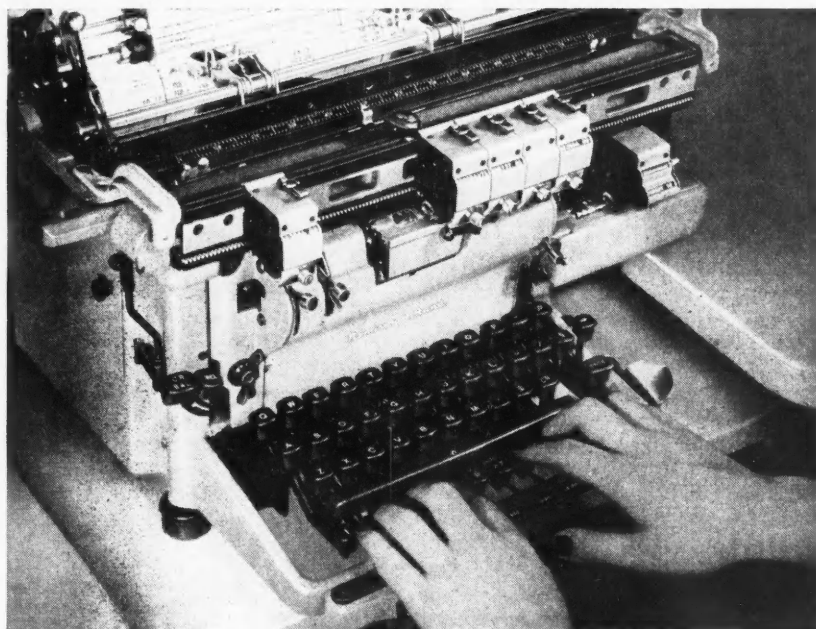
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SWEETNESS

**and
LIGHT**

By Jay Vee

Putting the Auditor in His Place

WE have been plunged into an abyss of disillusionment. It all began last week when we apologized to our auditor for not being able to offer him a desk at which to sit but only a table with a straight-back chair. He replied that in some places he was expected to work with the books propped up on a radiator, and so as far as he was concerned, a table was more than satisfactory.

He seemed not at all disconcerted but we were really jolted. We had always heard that receiving a visit from an auditor was something like having one's clergyman up to dinner: in both cases everything was made to revolve around the comfort of the guest.

When it became obvious that we needed to "get the facts", we asked a number of C.A. friends about the unorthodox conditions under which they had been obliged to audit accounts.

A client of one C.A., we were told, had no office at all; the records were all kept at his home on the outskirts of a village. When the auditor drove around to the house to get them, the client appeared at the door with the books under one arm and a bottle of Non-Pareil Home Distilled under the other. Every time the auditor reached for the books the client tried to thrust the N.-P. H.D. into his hands instead. Finally our hero wrested the palm of victory (we refer to the books, of

Sweetness and Light

course!) and drove down the road until he was just out of sight. Then he got into the back seat of the car, opened the accounts receivable ledger, and calmly proceeded with his audit.

"In the doghouse", was the way a lady C.A. described the strangest place in which she had ever worked. She explained that a small northern mine office was completely occupied by the four men employed there. When she and the other auditors arrived, they were shown into a tiny back room which was filled with one huge drafting table and several high stools. As they perched themselves atop the stools, a distinctly canine odour assailed their nostrils. They peeked under the drafting table and spied no less than four dogs, including a shaggy St. Bernard, a cantankerous Scottie, and two of the Heinz 57 variety. It seems that the mine men were dog lovers all, and each brought his pet to work with him every day. Happily for everyone concerned, the dogs took the attitude that they would tolerate the auditors if the auditors would tolerate them. And so except for an occasional yelp when somebody's heel accidentally dug into a hairy side of flesh, the week passed quite peacefully.

Perhaps the most bizarre experience of all occurred to still another C.A. who was doing the audit of an undertaking establishment. Again there was no room in the office, and the auditor was invited to move out into the back of the showroom. This he did, and going over to a large oak coffin he spread out his books and set to work. About an hour later he stood up to stretch for a moment and to relax his eyes. When he glanced around, he noticed to his dismay that the coffin on which he had been working was occupied. As he himself says, "You don't forget a thing like that in a hurry!"

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The Canadian Bank of Commerce
Head Office, Toronto

January 7, 1962

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was given by Mr. James Stewart, President, at the Annual Meeting of Shareholders on 9th December 1961:

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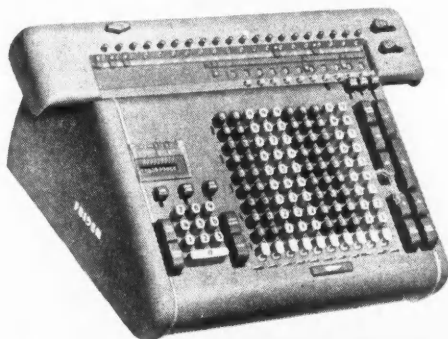
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The Canadian Chartered Accountant

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NUMBER 2

COMMENT AND OPINION

A Pronouncement on Replacement Price Accounting

ALMOST since the end of World War II the accounting profession, particularly in Great Britain and the United States, and in Canada as well, has given much thought to the generally accepted principle of calculating depreciation of fixed assets on the basis of their historical or actual monetary cost. The view was advanced that in times of sharply rising prices profits could not be accurately measured without taking into account the decline in the value of the monetary unit. The effect of ignoring the change in the measuring unit would be, it was contended, to over-state annual profit and, when productive plant was worn out, to be without the means of replacing it.

In Canada, the accounting profession has not indicated that it would favour a change along the lines suggested. In the U.S.A. the Committee on Accounting Procedure of the A.I.A. has taken a stand against any such change in the basis of computing reported profits though it has suggested that the effect of changing money values might be given consideration through the medium of supplementary statements. In the U.K. the Institute of Chartered Accountants in England and Wales has also recently given cogent reasons against the adoption of the replace-

ment price theory, at least without much fuller study. However, another leading British accounting body has now pronounced itself to the opposite effect. On January 2 the Society of Incorporated Accountants and Auditors issued a statement on the subject, of which we reproduce the principal portion:

The Council has noted the concern felt in many quarters about the harmful effects on the economy of profit measurements which disregard the implications of changing money values. Due note has also been taken of the demand which arises in many cases for the adoption of new conventions designed to promote a more realistic measurement of profit.

The Council therefore suggests to its members that encouragement should be given, in appropriate cases, to the wider use of new conventions in calculating the profit shown in financial accounts. When accounts are clearly stated to be prepared on this basis, they should be considered an acceptable alternative to those prepared on the basis of "historical cost".

The following suggestions are designed to assist members in giving effect to the new conventions as and when required:—

1. Depreciation of Fixed Assets

- (a) Where, for any reason, the fixed assets of a continuing business have been revalued, and the new values have been adopted as the book values, the charge for depreciation in the accounts issued subsequently should be based on the new values, and the effect of the change disclosed in the profit and loss account. The date, source

and/or method of valuation should be disclosed in the balance sheet, as well as the amount allocated to each class of fixed asset.

- (b) Where it is practicable to arrive at the replacement values of the fixed assets in use by a continuing business at the terminal date of accounts, the charge for depreciation in the accounts should be based on those values, and the method of valuation disclosed. The resulting adjustment to the depreciation charge based on the historical costs of the fixed assets in use should be disclosed in the profit and loss account and passed to a separate price change reserve for depreciation in the balance sheet. If the price change reserve for depreciation discloses a deficiency, it should be written off by means of a special appropriation of profit in the year in which it arises.

- (c) Where it is not practicable to arrive at the replacement values of the fixed assets in use by a continuing business at the terminal date of accounts, then the profit shown in the accounts might be accompanied by an indication that the charge for depreciation is confined to an allocation of historical costs.

- (d) Any provision for deficiencies in past depreciation charges brought about by subsequent rises in price levels should only be met by appropriations out of profits already determined, the principle being that each year's revenue should be charged with depreciation at the price level relating to the year of account and no more.

500 More C.A.'s!

In the October final examinations more than 500 candidates succeeded, according to the summary of the results of the uniform examinations. The exact number is 522, to each of whom we extend our hearty congratulations and best wishes for happiness and success in their chosen profession. To the 134 who will have to write supplemental examinations in auditing or accounting, and to the 192 unfortunates who will have to try the

full examination all over again, our sincere sympathy. Total number of candidates 848, percentage succeeding 61.5%, the latter of which is the highest in the history of uniform examinations. Another record established in these examinations is the percentage of successful candidates from one Institute: 87.1% the figure and British Columbia the Institute, which holds its leading position in the uniform final examinations for still another year. Here in tabular form is a summary of the results by Provinces:

	Candidates Passes		%
Alta.	62	42	67.7
B.C.	54	47	87.1
Man.	58	37	63.8
N.B.	9	5	55.6
Nfld.	2	1	50
N.S.	24	12	50
Ont.	304	210	69.1
P.E.I.	6	3	50
Que.	292	151	51.7
Sask.	37	14	37.8
TOTAL	842	522	61.5

The same trend is displayed by the results of the uniform intermediate examinations. Nearly two-thirds of the 717 candidates succeeded, but here the Manitoba Institute's representatives took first place, with those of P.E.I. and Ontario in second and third place respectively. Here in summary form are the results by Provinces:

	Candidates Passes		%
Alta.	39	11	28.2
B.C.	77	55	71.4
Man.	58	51	87.9
N.B.	11	3	27.3
Nfld.	8	5	62.5
N.S.	23	8	34.8
Ont.	303	221	72.9
P.E.I.	4	3	75
Que.	185	105	56.8
Sask.	9	6	66.7
TOTAL	717	468	65.3

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Some helpful suggestions
to assist clarifiers to clarify

I DO not believe, nor have I heard it stated, that chartered accountants as a profession are guilty of writing worse English than any other professional group. That the written expression of many professional men, speaking generally, could be greatly improved is true. Specific examples of indifferent and even of bad writing can readily be found in the publications of any professional group not excepting educational publications, in which one would expect to find a high degree of competence in the use of the mother tongue. I believe that the Chartered Accountants of Manitoba are genuinely concerned about effective written expression and do their best to write clearly.

Language Must Be Cultivated

The reasons for poor English and ineffective writing are insufficient training, lack of experience, lack of definite standards, and a false assumption that, because the medium of expression is the familiar vernacular, we know how to use it effectively. Many successful business men, keen, able, technically expert, would be highly indignant if anyone found fault with their writing, because

they are under the delusion that their professional skill and ability are necessarily transferred to their written expression of facts and thoughts. Training in the writing of good English is just as essential as training in a business or profession. Effective writing is a skill; it is the result of mastering the effective use of an instrument — language. One is not born a competent writer; one acquires the ability to write effectively by study and by practice. Some persons develop greater skill than others because of certain natural gifts; but that is true of all human activities. A boy may have a natural bent for music and early show talent as a violinist; but to achieve mastery of the violin he must devote years to diligent and intelligent practice. English is an instrument like the violin; it is not mastered in a year and a day.

Helpful books on report writing and pamphlets on the language of reports are available; but we shall not improve the English of our reports merely by reading or occasionally consulting such publications. The methods and the advice which they suggest must be used. Deliberate self-criticism and painstaking

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revision are indispensable. Such a discipline, patiently followed, will soon bring about an improvement, and, what is more important, give the writer a mastery of language which becomes more and more sure.

Clear thinking precedes clear writing. Exposition in general and report writing in particular demand careful analysis of facts, the exercise of good judgment, the logical presentation of facts and thoughts, sound conclusions. In our written expression of these mental acts and processes, the prime requisite is clearness. The reader should be able to grasp readily what is reported. Dr. Aurner, in his text "Effective English in Business", quotes the assertion of a telephone traffic superintendent: "Clear expression is a quality which we insist upon. We can hire plenty of people who can write something that can be understood. It is far more difficult, however, to find people who can write something that cannot be misunderstood."¹

The Sentence

Clear writing depends upon good sentence structure and plain, simple, straightforward expression. Good sentence structure means that the elements of a sentence are clearly and closely related and logically placed. It means also that the main thought or idea is given due prominence, and that the subordinate ideas, while being appropriately related to the main idea and to each of them, are kept subordinate. The sentence is the unit of expression. Let us use a railway train as an analogy. The freight consists of thoughts or ideas expressed by words and phrases, but the track which conveys them directly without accident to their destination, the reader's mind, is the sentence. No matter how extensive a writer's vo-

cabulary or how apt his use of words, if he cannot marshal them skilfully in clear, well-constructed sentences, he will not express himself effectively. If we deliberately criticize our sentences and test the effect of the re-arrangements of the parts until we are satisfied that our thoughts and ideas are clearly stated, after a time we find that clear, straightforward expression becomes natural.

Communication

The first aim of a report is to communicate, to give information. The simpler the language, the more easily it can be understood. Clearness, therefore, depends also on plain, simple language. The following passage from Dr. Aurner's book² gives some examples which violate that principle:—

"An insurance man once wrote the following letter to a man in the eastern part of our country. As you read it, put yourself in the mountaineer's shoes:

Surrender of the policy is permissible only within the days attendant the grace period in compliance with citation relevant options accruing to the policy. We are stopped from acquiescing to a surrender prior to the policy's anniversary date. We are confident that an investigation relevant to the incorporation of this feature will substantiate that the policy is not at variance with the policies of other companies.

"Discussing this cloud of verbiage, L. E. Frailey, letter analyst, remarks, 'I suppose most of us in business are a little better equipped to understand the English language than that man of the hills, but tell me truthfully — did you understand the meaning of those sentences after the first reading? . . . I think the insurance man should have been ashamed when he read the mountaineer's simple answer:

Dear Mister, I am sorry, but I do not understand your letter. If you will ex-

¹ "Effective English in Business", by Robert Ray Aurner, Ph.D., 2nd ed., 1940, (South-Western Pub. Co., Cincinnati)

² *ibid*

plain what you mean, I will try to do as you ask.'

"But the insurance man was no worse in his violation of clearness than the corporation that issued a pamphlet containing this statement of chaos and confusion:

The fee for the filing of a certificate, other than a certificate that a paper, for the copying of which he is entitled to fee, is a copy, is twenty-five cents.

"There is a vague meaning hidden in these lines, but it is certainly not intelligible."

Use the Familiar Word

We should use familiar words rather than uncommon words, simple words rather than pretentious words, because we are more likely to be understood; and especially if we are writing reports for the layman who does not understand technical language. If the report is for his information, then it must be couched in language that he can understand; otherwise he is going to read it through as a matter of routine and toss it aside. It is a very different thing when a professional man is addressing a group of his own profession; then, naturally, he uses technical terminology because that terminology has a precise meaning both for him and for his audience.

We should avoid using such legalistic monstrosities as "herewith, therefor, therefrom, thereof", and such phrases as "prior to", when we mean simply "before", "subsequent to", when we mean simply "after". Simpler equivalents could be used for certain expressions in the following sentences, some of which I have taken myself from auditors' reports: "Negative confirmations of the balances outstanding were mailed to the customers". When I read that phrase, I did not know what on earth it meant. "Negative confirmations": that is just about as absurd as talking about "affirmative contradictions". However, my mind

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recalled the occasion when I had to give some bonds to the bank as collateral for a loan. After a while, I received a short statement which listed the securities which I had given as collateral. A note at the foot said, "If the foregoing is correct no reply is necessary . . ."; so I assume that that is what is meant by a negative confirmation. "The outstanding cheques were reconciled with the records"; for a horrible moment I wondered whether somebody was cooking the books. I was not sure whether the cheques were made to agree with the records or *vice versa*. Then, suddenly, I remembered the motto of the Institute of Chartered Accountants of Manitoba³; and, of course, when I came to that last word, I knew that nothing like that could have happened. But "to reconcile" always indicates that there is a conflict or an apparent conflict, and that harmonization is essential. Now, surely, the auditor does not mean to say that the outstanding cheques conflicted with the records or *vice versa* and that he "reconciled" them. "Pursuant to our appointment we have examined the accounts"; where simply "as requested", "as instructed", would do.

³ *Accurate et Integre*

"An aged analysis of the trade accounts compared by percentage with the previous year is as follows." I should imagine that when the analysis is set forth, any intelligent person can tell that the analysis is by percentages, and that it indicates whatever is supposed to be indicated by the adjective "aged". I should imagine, too, that if the statement follows, all that is necessary would be "an analysis of outstanding trade accounts follows"; and that is seven words instead of seventeen.

Prefer the Concrete Word

Generally speaking, we should prefer concrete words to abstract words; instead of "confirmation of these reports cannot be obtained", we can write "these reports cannot be confirmed". The use of the active instead of the passive, so frequently encountered in the minutes of meetings and in reports, will do much to improve the style and to contribute to clearness. If we examine the average run of minutes of meetings, we read that a motion *was made*, something *was done*, but that nobody ever did anything. Everything *always was done*. *We, you, the company, the shareholders*, make for a more personal tone and also often prevent obscurity. The passive always requires more words than the active. A writer, in speaking of this very matter, gives the following illustrations: "In one report, the phrase 'it could not be determined' left the reader completely in the dark whether our auditors could not determine or the corporation could not determine, and in the place where it was used the distinction was important. Again, 'It is recommended that test confirmations be undertaken' was intended to mean 'we recommend that the examiners make test confirmations'."

Be Concise

Another important quality of good writing is conciseness, an aid to clearness

as well as a saving of time, energy, and expense. Conciseness is the expression of facts and ideas in as few words as are necessary for their complete and clear statement. Consider this sentence: "*In connection with our examination we wish to make the following comments with respect to certain of the items appearing on the balance sheet.*" *In connection with, we wish* (it is not a matter of *wishing* at all), *the following, with respect to, of the*, are unnecessary. That sentence contains twenty-four words. It could be reduced to eight words: "Comments on certain items of the balance sheet." Consider the number of reports that are written in a year by hundreds and thousands of people. If, on the average, instead of writing twenty-four words, they could write eight, how much typing, how much paper, and how much time would be saved!

The principle of conciseness requires us to avoid such useless words and phrases as *in connection with, with respect to, in regard to, in view of the fact that* (where the single word "since" will do), *in accordance with, in the light of, it should be noted that, it would appear that, in relation to*. It requires us especially to avoid the words "case, cases, instance, instances, character, conditions, purposes, nature", all vague, woolly words. For example: "We explained the nature and character of the operations of the company" (twelve words) instead of "We explained the operations of the company" (seven words). "Payments of a similar nature" (five words) where two words will do — "similar payments". Fowler, in his "Modern English Usage", remarks about the word "case": "There is perhaps no single word so freely resorted to as a trouble-saver, and consequently responsible for so much flabby writing." Commenting on "instance", he says: "Writers . . . may take refuge with *instance*, not realizing that most instances

in which *case* would have damned them are also cases in which *instance* will damn them. . . . *instance* has been called *case's* understudy."

I have not referred specifically to the matter of precision in the choice of words, because that is implicit in what I have already said. Let me bring this painful subject to a close with a few quotations from "The King's English", an article appearing in the November 1950 issue of the *Canadian Army Journal* and reprinted from the *Australian Army Journal*:

"If we study the writings and speeches of that great master of modern English, Mr. Winston Churchill, we become aware that he almost invariably uses simple, direct words and phrases. For example, he did not begin his famous broadcast of June 17, 1940, by saying, 'The position with regard to France is extremely serious.' Nor did he end it with a ponderous, 'We have absolute confidence that eventually the situation will be restored.' He said, 'The news from France is very bad . . . we are sure that in the end all will come right.' In a memorandum issued August 9, 1940, Mr. Churchill wrote: 'Let us have an end of such phrases as these: *It is also of importance to bear in mind the following considerations . . . or consideration should be given to the possibility of carrying into effect. . .* Most of those woolly phrases are mere padding which can be left out altogether or replaced by a single word. Let us not shrink from using the short expressive phrase even if it is conversational.'

"Many writers seem to imagine that no noun can stand alone, but must have an adjective to support it or give it emphasis. This erroneous supposition often leads the writer to say something he did not intend. How often do we come across the expression 'There is *real danger*.' The expression *real danger* makes sense only when it is used in comparison with an imaginary danger. If you must

emphasize danger, find the adjective that expresses what you want to say, and don't use one that says something you did not have in mind at all."

Some Bad Instances

That reminds me of the number of times within the past year I have come across the phrase "*very obvious*". "*Obvious*" is synonymous with "*apparent*" and "*evident*". That is *apparent*, which appears to be, or seems so on the surface; that is *evident*, which is "clearly seen", by the very derivation of the word; but "*obvious*" means "in the way", or "across the way", as of an obstacle in one's path that cannot be ignored. That is *obvious* which is conspicuous, clearly perceptible. "*Obvious*" is one of those strong words that need no bolstering with adverbs; a thing is obvious or it is not obvious.

Here is another quotation from "The King's English": "Since the war there has grown up a regrettable tendency to use vague, high-sounding expressions rather than commonplace words with a precise meaning. *Liquidate* — the word *terminate* having superseded the familiar *end* is itself being superseded by *liquidate*. This irritating word is now used, nearly always erroneously, for denoting the ending of anything from massacring a nation to giving the milkman notice."

Another very fashionable word at the present time which has been borrowed from the United States is *directive*. "This high-sounding word is obviously often used in the mistaken belief that it is synonymous with *order* or *instruction*. *Indicate* is frequently used as a shoddy and often misleading substitute for *show, state, report, instruct, demonstrate*."

Three other pet aversions of mine: *major, contact, reaction*. "This is a major problem" — the word *major* simply means *greater*, that is all. It is a Latin comparative. It is not a substitute for

serious, grave, important. "A major problem": does that mean "a greater problem", or a serious problem, an important problem, a vital problem? Take the word "contact". Nobody ever today says that he going to get in touch with someone, or going to write to him, or telephone him. The other word is "reaction", which we have borrowed from chemistry. "Reaction of" is absolutely wrong; it is the reaction of one thing to another. "Reaction" has become one of these "blank cheque" words which you may use in conversation when you cannot always foresee what you are going to say or take time to be precise; but a man who writes it has absolutely no excuse, because something which is written has to be prepared and can be revised. "Reaction" is misused for the more precise "response", "attitude", "opinion", "answer".

The Cow: A Description

As some slight compensation for this opinionated lecture, I am going to quote this composition taken from "Plain Words", a little book written by Sir Ernest Gower. This composition was written by a child of ten, who had been asked to write an essay about a bird and a beast.

The bird I am going to write about is the owl. The owl cannot see at all by day, and at night is as blind as a bat.

I do not know much about owls so I will go on to the beast which I am going to choose. It is the cow. The cow is a mammal. It has four sides — right, left, an upper, and below. At the back it has a tail on which hangs a brush. With this it sends the flies away so that they do not fall into the milk. The head is for the purpose of growing horns and so that the mouth can be put somewhere. The horns are to butt with and the mouth is to moo with.

Under the cow hangs the milk. It is arranged for milking. When people milk, the milk comes and there is never an end to the supply. How the cow does it I have not yet found out. The cow has a fine sense of smell; one can smell it far away. That is the reason for the fresh air in the country.

The man cow is called an ox. It is not a mammal. The cow does not eat much, but what it eats it eats twice so that it gets enough. When it is hungry it moos, and when it says nothing it is because its inside is all full up with grass.

That is certainly more illuminating than speaking of the cow as the herbivorous and lactiferous female of the bovine species, characterized by dual, frontal, curvilinear excrescences of a non-deciduous nature.

Why Not Use Accounting Terminology?

By Robert A. Miller

**It is not the accountant's fault
if management refuses to listen**

EVERY once in a while accountants and cost men "bump up against" the fact that management does not take seriously enough the information they have worked long, conscientiously, and intensively to gather, analyze, and present. Unfortunately, what I consider a totally unworthy reaction to this rebuff has become common. The accountant cringes, accuses himself, decides he must have presented it wrongly and must re-do it and present it again. Sometimes he waits patiently, continuing meanwhile to "knock himself out" to get needed information, until management (having exhausted all other possibilities) deigns to beckon and consider his offerings. This is lack of backbone in accountants and cost men and is a sad commentary on their self-appraisal.

The Anxious Umpire

Most accountants have gone through from four to eight years of college and range in experience from five to twenty years in learning how to develop significant facts in industrial operation, besides learning through professional literature and contacts what other companies and industries have found successful. Throughout these years the accountant

has sharpened his tools, increased his knowledge, developed better methods, refined costs, analyzed procedures, and revised his conclusions. He has had no axe to grind. He has not tried to prove that the sales department is right or manufacturing or engineering. All he has been interested in has been the truth. He has asked, "What are the facts?" "What can be done to reduce costs?" "To increase profits?" These questions have been the driving force behind all of his activities.

Often he can see clearly where costs can be reduced, with a corresponding increase in profits and it becomes almost an obsession. In his enthusiasm, he presents this rare and valuable information to management, knowing that the latter needs only act upon it to achieve benefits for the company. Is this wrong of the accountant?

Let us consider again the matter of the reception he gets. Perhaps he hears sharp words like this: "You say our labour cost is too high. You probably do not understand that our labour rates have kept pace with those of the industry and, therefore, we could not reduce them. Only an imbecile would suggest reducing labour rates in these days."

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Thus, he is categorized! Or perhaps he hears the following: "You say our material cost is too high. You probably do not understand that, in the last ten years, material costs have risen, so there is nothing we can do about that. You are suggesting something impractical and purely theoretical."

This is in spite of the fact that the accountant can demonstrate that waste (scrap, breakage) is too large a percentage of input and is gutting the salvage area.

Well, what does the accountant do when these bitter words are spoken? Perhaps frantically, he supplies information on excess down-time and explains the existing waste of manpower, faulty equipment utilization, and excess use of existing direct materials. Or he points out that productivity is down markedly and suggests that even a slight reversal of this trend could, alone, cure company ills. In other words, he hands management everything needed to judge the situation intelligently, based on years of study and experience of how to prepare such data, and moved by a conscientious desire to replace waste by profit.

But the accountant's nervous attitude defeats him. What sort of reply does he get from management at large? It still runs something like this, in spite of the material he has submitted (it did not get a good "look at"), "Poor agitated Joe, what does he know about manufacturing or shipping or sales — or anything else but debits and credits? I'm a shop man, myself, and I can tell by the 'feel' if we are doing a good job" or, "I'm a salesman. I know what we can sell and can't sell. You have to have an instinct for it."

Industrial English Is Largely Technical

So, for refuge, sympathy, and to refresh his beliefs and prevent acute frus-

tration from setting in, the accountant attends a meeting of kindred enthusiasts ("professional associates" to you) and receives — a talk on "how to sell accounting to management" or "salesmanship in accounting". The address may be fine but the specifics prescribed are as likely to fester the sore as heal it, especially if the speaker recommends abandoning technical terminology. He may say that management is not of the accounting profession and therefore does not understand this language. His proof is that, if management understood, it would act immediately to stop the flow of dollars down the drain. The following words are likely to be cited in such a talk: variance, budget, variable costs, fixed costs, performance, profit margin, operating profit, etc.

But these words are part of the liveliest industrial language there is. Any man who does not understand these terms and their significance is not qualified to direct the operation of a company upon the success of which many stockholders are dependent. Similarly, any man who damns costs because they tell him unpleasant things, or because they are not what he "felt" they should be, is a negligent manager. An accountant does not need to "sell" himself to such a man (as the speaker suggests). To put it bluntly, he must educate him.

Because of his monthly or quarterly sessions with the board of directors, this man has had to learn something about regular or accelerated depreciation, "lifo" inventory valuations, capitalization of expenditures, cash forecasts, etc. Of course, if the members of the board are no more astute than he, it is only necessary for him to learn to say a few terms and phrases to get by, but at least there is the invitation to learn something about them. In the day-to-day operation of the business, where wasted dollars are evidence of neglect, such a man does nothing.

ing because no bell rings in the board room when a cost goes out of line. He does not heed cost information because he does not want to heed it. He will not hurt the factory manager's feelings by speaking to him about the costs or the budget developed by a non-manufacturing man. Here, our case takes another turn. The directors wanted to know about "lifo" and our "manager" took an interest in it, but how many directors really understand industrial management techniques in a broad way? You see, the plot thickens, and so should the accountant's fighting blood. There's gold (for the company) in those technical terms.

It is not that the manufacturing organization eschews technical language as such. It can suddenly become very adept at technical manufacturing language and delight in stumping the layman. But not accounting terms! These they are inclined to fear and scoff at for accounting as a tool is recognized to mean disclosure of situations as they are. It is this potential, at once so desirable and so hard to face, on which there is the temptation to close the door by bypassing the language.

Accountants Should Honour Their Own Experience

Sometimes there is a further element. The caution of accountants makes them think everyone else is as bold as the front he puts on. Open failure to act, in cases where action seems mandatory, is attributable to simple lack of guts, to which operating personnel are by no means immune. The accountant, however, is likely to put it down to his own lack of effectiveness. But the industrial accountant has a technique which has taken years of formal education and year of experience to develop. If management does not act on sound advice, the fault is not with the counsel given.

Perhaps the accountant can some-

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times take it upon himself to find out *where* there is a lack of backbone. At all events he must stick with his skill and keep refining his techniques, keep developing new tools, and keep on indicating when action must be taken. Who knows? He may eventually educate management to proper dependence on him to steer the ship away from the shoals of insufficient profits to the green and charted seas of increased profits. Or he may eventually "acquire" a management well-rounded in industrial experience, one which knows how (to change metaphor) to fly a big ship by instruments the modern way, rather than depend on the "seat-of-the-pants" technique appropriate to the crate flown in bush-pilot days.

If the accountant is sincere, accurate, conscientious, and hard-working, he must not weaken "under fire" or pussy-foot. In companies all over the country, accountants and cost men do find managers who are professionally literate as well as intelligent and progressive, and who know exactly what is meant by standard costs, variances, flexible budgets, profit path control, and like terms. They are the terms of a profession and should be used forthrightly.

There are also isolated cases in which it would not be too bold, although the idea can only be carried out with tact, to encourage management personnel to attend schools of management development, where the fundamentals of industrial management are taught: what tools are available, how to use them, and how to discover the acres of diamonds buried in a company's own backyard. Management is one endeavour and the accountant is part of it.

Education: What It Means to a Businessman

By Ben Isnor, B.Sc.

Insufficient education will not merely deter but bar success in business

MANY businessmen do not possess a formal education glorified by a college degree. When one considers this and adds to it the "rags to riches" stories of the many men who have been highly publicized over the years for their climb from a "log cabin" beginning to positions of great wealth and power, one might be led to suspect that a formal education is of little value to a businessman.

Nothing could be farther from the truth. Of course, no amount of formal education can replace the natural or acquired qualities of aggressiveness, tact, judgment, sound common sense, and plain hard work. These qualities are the secret of success of any businessman. But add these qualities to a formal education, and the combination will produce a man whose accomplishments will be recorded in history. The world has lost much because some of its great men have lacked a formal education.

An Insurmountable Barrier

The time is fast approaching when lack of sufficient education will not only be a deterrent but a definitely in-

surmountable barrier to success in business.

I think you will agree that some sort of a basic education is now essential to success in even the most menial of occupations. To get along in the world at all and enjoy a standard of living that is above a bare existence, one must be able to read and write, add, subtract, multiply, divide, and have some elementary knowledge of physics and chemistry. I recall very well the changes that have taken place in my lifetime in some of the so-called labouring jobs. When I was a young man, the City of Halifax paved the street in front of our house. First they sent in a crew of men with picks and shovels and by hand they dug the street down to the desired base level. They loaded the earth into horse-drawn carts. Then they set up a mixing box and mixed cement, gravel, and water by hand to put down the concrete sub-base. After this was set they brought up the asphalt in carts, shovelled it out by hand, and raked it level with hand rakes. Contrast that picture with today's — the excavation is done with power shovels and the dirt hauled away in large

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trucks; concrete is mixed in large power-driven cement mixers to exact specifications; and asphalt is laid by relatively intricate machinery. You may feel that relatively little education is needed to drive a truck, to operate a power shovel, to run a cement mixer or an asphalt paver. But you will find that the businessman who has contracted for the paving will require the machinery to operate without stoppage and that means no breakdowns, he will want daily reports involving considerable detail concerning the operation, and he will want to be able to discuss intelligently ways and means of saving money with any and all of his machine operators. If these men lack a basic education they will be unable to accomplish these things and they will find that they will be replaced by others who can.

If this is true on the so-called labourer's level, think of how much the situation has changed on the businessman's or management level. The world has seen great technological progress during the past 30 years, and it is continuing. Hardly a day passes when we do not read of the development of a new process, and we are now barely standing on the threshold of the atomic age. Future developments will be still more rapid.

A Technological World

It is of course obvious that these tremendous scientific discoveries are made by men of great education and without their education many of the processes we now know would still be mysteries. But we are not talking about scientists — we are talking about businessmen and it is the businessman who turns the discovery of the scientist into practical use for mankind. How is this done? Scientists make discoveries; their industrial application is

made possible through technology in engineering schools; then through the pilot plant stage they are readied for industry. Methods of mass control of industrial processes are worked out so they can be operated by engineers of lesser ability or even by intelligent workers without scientific training. But there must be someone in the organization who can work with the scientist — else at times the entire operation may cease to function. That man is expected to be the plant manager. He has to be able to speak both the language of the scientist and of the worker.

I am reminded of the story of the New York plumber who wrote the U.S. Bureau of Standards his discovery that a dose of hydrochloric acid would quickly open a clogged drainpipe and asked if it was a good thing to do. A Bureau scientist replied: "The efficacy of hydrochloric acid is indisputable but the corrosive residue is incompatible with metallic permanence."

The plumber wrote back thanking the Bureau for telling him his method was fine. The scientist, a little disturbed about the misunderstanding, showed the correspondence to his superior — another scientist. The latter wrote the plumber: "We cannot assume responsibility for the production of toxic and noxious residue with hydrochloric acid and suggest you use an alternative procedure."

The plumber answered again. He agreed that hydrochloric acid worked fine. The two scientists, upset over the future of New York's drainage system called in a third scientist, who finally got the Bureau's message across. He wrote the plumber: "Don't use hydrochloric acid. It eats hell out of the pipes."

In this case the scientist dropped down to the language of the worker.

Industry-wise you will find that the businessman has to more closely approach the level of the scientist.

The Humanities Remain

But there is much more to business than mere technical operation of a process. That is part of it. In broad general terms, the job of the businessman is to fuse men and materials into a product, to bring that product and the people who want it together, and then to consummate a sale. All this must be accomplished at a profit. Thus, in addition to process we have people and I would like to say a few things about this phase of business.

Pure science is an exact process but the reactions of the men who must operate it are relatively unpredictable. And men are now more unpredictable than ever before. This is a direct result of our rapid rate of technological advancement.

Man now sees almost daily changes in the world in which he lives. He sees life moving at a tremendous pace; he sees machines doing things automatically that formerly required men to do. He constantly worries about his own job; and asks himself: "Will someone invent something that will displace me?" He fails to understand the machines, and mysteries always create fear.

Even his own inherent characteristics are changing, perhaps even without his knowledge. The late but not lamented Adolph Hitler, in opening a motor show in Germany before the war, said "Strange that these machines [automobiles] and all the thousands of other machines in our factories should be changing the human character. But they are. The man who drives his car at top speed has developed a totally new set of reflexes. He does not think any more before he makes a move — there is no time to think. For his own

safety he must react with lightning speed. Therefore he must be automatic — almost like a machine. A good part of his energy goes into automatic reflexes instead of into thought. That is why in our day and age the number of people who think for themselves is dwindling."

So we find that man today, instead of being a thoughtful, solid, predictable entity, is an uncertain individual with semi-automatic reflexes, puzzled about the machines he sees around him, and worried about his job and his future.

And the businessman must still further accentuate this. In a race for survival in the competitive world, the businessman must of necessity take advantage of the technological processes that the scientist has developed. He must install the newer and faster machines that the scientist provides. He must be alert to take advantage of anything that will reduce his costs. Yet he knows that unless he has a steady, reliable, intelligent, contented, and loyal group of workers to operate his machinery, he must surely fail to attain his objectives. How then can he secure such a working force in the face of the many factors that prejudice against it?

Deciding Policy

The answer lies in a proper program of human relations. And it is in this particular that the average technical education falls down. Most businessmen need a broader background than their university training in a specialized field gives them in order to cope with the problem of human relations, and they are forced to acquire this by experience. But experience can be acquired sometimes more thoroughly and always more quickly through an organized educational process. To obtain optimum results in dealing with people we

need to study something definite on the subject. I have found that the Dale Carnegie Course in Human Relations was one of the most valuable courses of study that I have undertaken. We need to study and read some anthropology, biology, history, economics, contemporary civilization, and psychology. This combined with our technical education gives us a wide background and trains us to use it. It stimulates us and broadens the scope of our imagination. It develops habits and skills which makes us bring into decisions many factors which would otherwise be missing.

And this is particularly important to the businessman, because the most important function of all is his responsibility in making policy. Businessmen are being called upon constantly to make decisions of this kind. For example, shall I double the size of my business (and therefore my capital investment) to keep pace with a growing market? If I do this I will tie up my financial reserves for many years. Suppose I just get this done and we run into a depression; or a new product is invented that will take the place of mine on the market. Will freight rates rise and deprive me of a market that I now enjoy? Or will there be developments in equipment in the near future that will make my plant obsolete as soon as it is finished? Should I therefore wait and let my competitors take over the sales to an expanding market? If I do this I may endanger the future of the business. If I don't call the turn right on the future, I endanger the business by tying up capital. A wrong decision in either direction is disastrous.

Or take another "for instance"; say sales are falling off. How should I stimulate them? Should I add more salesmen with consequent shrinkage of

Mr Ben Isnor is the general manager of the Moncton Publishing Co. Ltd. which publishes The Moncton Times and The Moncton Transcript. He is a graduate engineer.

profit? Or should I reduce prices with the hope that volume will immediately increase (which will enable me to effect production cost savings) so as to maintain profitable operation at the new price level? Or should I spend say \$20,000 on an advertising campaign, or a similar amount of money on packaging, etc?

Or say that a business is faced with apparently adamant labour union demands. Should I face a strike and hope that the attendant shut-down will not cause me to lose so much volume (which cannot be recovered) that it will endanger my business? Or should I give into the wage demand and therefore create a cost increase sufficient to endanger the business through inability to meet price competition?

These are the policy decisions that businessmen are being called upon to make from time to time. And a wrong decision means the loss of many thousands of dollars at the minimum, the ruination of a business at the maximum.

What Policy?

How do they answer these questions? Upon what thought processes do they depend for making policies? It is called a variety of names but the one I like best is "Trained Intuition". As the name implies, it is part technical training, part general knowledge, part experience, and part "hunch". You will note that education therefore plays the most important part in the development of "Trained Intuition". What then does education mean to a

businessman? The answer is "just about everything!"

The Place of the C.A.

Now you will say, "What has all this to do with me? I am a student undergoing technical training in the field of accountancy". I would say this. While you have an excellent opportunity to earn yourself an excellent standard of living in pursuing the public accounting field, even greater opportunities present themselves in the management field. I have mentioned from time to time in this talk the technological changes that have taken place during the past 30 years. Great changes have also taken place in our capitalistic system. The great capitalist no longer exists. Business today is not controlled

and run by men like John D. Rockefeller, Andrew Carnegie, Edward H. Harriman, and J. Pierpont Morgan. Rather today it is owned by a large number of relatively small stockholders and run by a new kind of businessman—the professional manager. The professional manager is a technically educated man who has developed a "trained intuition".

You are presently participating in a process of technical education. I suggest that it would be well worth your while to undertake on your own a supplementary of more generalized education so as to fit yourselves for a professional managerial position should the opportunity present itself at some future date. I can assure you that you will never regret it.

Letters from Readers

University of Toronto, Nov. 10, 1953
PURISM

Sir: I do not know if anyone has yet drawn your attention to the large number of companies which state that their inventory is valued "at the lower of cost or market". If they must use this deplorable method, they might at least change the "or" to "and".

C. A. ASHLEY, F.C.A.

Queen's University, Dec. 15, 1953

THE C.A. COURSE

Sir: I read with interest the paper by E. W. Thompson, B.A., C.A. in your issue of December 1953. I find myself in disagreement with the statement in the opening sentence that "the course is concerned with only the last item—the passing of the examination". Again on p. 302 it is stated that "the content of the course is, I have suggested, designed to enable the student to pass an examination for which the syllabus has been laid down".

This narrow view of the purpose of the course is not held by the present Board of Instruction nor was it held by its predecessors

who initiated the courses. I quote from the preliminary information and instructions issued to students in the first year course:—

"While the courses are planned so as to cover the syllabus of the examinations of the Institutes they are to be regarded primarily not as a means of coaching for an examination but as education for the practice of a profession with large and increasing legal and moral responsibilities.

"In designing the courses the authors kept constantly in mind that the students would not be devoting their whole time to study, but would concurrently be acquiring practical experience in the work of a chartered accountant. The courses should therefore help the student to co-ordinate and systematize the results of his practical experience."

I wish to dissent most emphatically from the point of view that the course either is or should be "concerned only with the passing of the examinations". It is concerned primarily with assisting the student to attain to a certain standard of professional competence.

W. G. LEONARD, F.C.A.

Director of Professional Courses

Rapid Solution of Fund Statement Problems

By C. R. Airey, B.Ec., A.A.S.A.

More on the "T" account

IN explaining the "T" account method of preparing fund statements (*The Canadian Chartered Accountant*, May 1953), Mr. Lewis N. Greer states that his method "admits of solution in a minimum of time". While agreeing entirely with Mr. Greer that the "T" account principle is superior to any which involves the use of "reversing entries", I think his procedure takes more time than necessary.

Both the setting-up of the "T" accounts themselves and the formal recording of the entries which explain the changes in them can be eliminated without loss of clarity. All that is needed can be done on one work sheet with only eight columns, and without lengthy vertical extension.

To illustrate, let us re-examine below the problem worked by Mr. Greer.

COMPARATIVE POST-CLOSING TRIAL BALANCE OF THE F. CO. LTD.

	31st December	
	1948	1949
Bank	\$ 160,000	\$ 210,000
Marketable securities	120,000	80,000
Accounts and notes receivable less allowance for bad debts	220,000	250,000
Inventories	300,000	360,000
Investments in stock of subsidiary companies (at cost)	350,000	240,000
Buildings and equipment less allowance for depreciation	800,000	1,020,000
Patents and goodwill	140,000	36,000
	<u>\$2,090,000</u>	<u>\$2,196,000</u>
Miscellaneous accrued liabilities including taxes	90,000	85,000
Accounts and notes payable	160,000	180,000
4% mortgage bonds	500,000	400,000
Preferred stock (par \$25, each share convertible into two shares of common)	250,000	210,000
Common stock (par value \$10)	300,000	432,000
Paid-in surplus	200,000	258,000
Earned surplus	590,000	631,000
	<u>\$2,090,000</u>	<u>\$2,196,000</u>

An analysis of the trial balance changes discloses the following:

(a) Stock owned in the X Co. Ltd., a partially owned subsidiary, was sold for \$200,000. Stock had originally cost \$110,000.

(b) The entire goodwill of \$100,000 was written off the books in 1949.

(c) The patents had a remaining life of 10 years on 31 Dec 1948, and are being written off over this period.

(d) Mortgage bonds mature on 1 Jan 1959. On 1 July 1949, bonds of \$100,000 were purchased on the market at 103½ and cancelled. The premium on bond retirement was charged to earned surplus.

(e) The decrease in preferred stock outstanding resulted from the exercise of the conversion privilege by preferred stockholders.

(f) During the year 10,000 shares of common stock were sold at \$15 each.

(g) During the year equipment costing \$60,000 with a net book value of \$12,000 was sold for \$8,600. Depreciation of \$64,000 was taken during the year on buildings and equipment. Additional changes in the buildings and equipment balance resulted from the purchase of new equipment.

(h) The net income for the year transferred to earned surplus was \$107,900.

(i) Dividends declared during the year totalled \$50,000.

Required:

Submit a statement of source and application of funds and statement of changes in working capital.

The Work Sheets

A solution of this problem is provided by the work sheet on page 79, which is explained as follows:—

The trial balance figures are copied out, and the changes during the year are sorted into two sections, one for working capital items and one for changes in other items. The balance of the working capital columns is entered in the "other changes" section, of course being reversed in the process. The working capital section forms the basis for the answer to the second part of the question. This section could, if desired, be prepared separately from the main work sheet, thus shortening the latter.

The final columns headed "reconstructed entries" are made as wide as the sheet will allow. The figures here are essentially an explanation in detail of the net changes recorded in the "other changes" section.

It will be seen that the "T" accounts are, in effect, set up in the work sheet itself, eliminating the necessity for ruling and heading them separately, and

facilitating the taking of an overall balance for final checking purposes. A further great saving in time is secured by entering brief notes to accompany certain of the figures, thus making unnecessary a lengthy set of written memoranda in journal form.

The principle followed here is exactly that enunciated by Mr. Greer, namely: "Changes in working capital are the result of changes in non-working capital accounts", but there is the following addition: when both elements of a double entry affect non-working capital accounts, the transaction represented has no effect on working capital. This is, of course, axiomatic.

Such double entries, therefore, can be disregarded in a funds statement. It is necessary to make them in order to prove our work; but once having made them we need consider them no further. Accordingly, the letter "x" or some such symbol is placed against them.

Its Design

The design of the work sheet is such that when either the debit or credit side

	31st December		Changes in Working Capital		Other Changes		Reconstructed		Entries
	1948	1949	Working Capital		Dr.	Cr.	Dr.	Cr.	
			Dr.	Cr.					
Bank	\$ 160,000	\$ 210,000	\$ 50,000						
Marketable securities	120,000	80,000		\$ 40,000					
Accounts, etc. receivable	220,000	250,000	30,000						
Inventories	300,000	360,000	60,000						
Investments in subsidiaries	350,000	240,000							
Buildings, etc. less depreciation	800,000	1,020,000			\$220,000		\$90,000 x	\$200,000 Sale 8,600 Sale	
Patents and goodwill	140,000	36,000				104,000	296,000 Purchase	64,000 x 3,400 x 100,000 x 4,000 x	
	\$2,090,000	\$2,196,000							
Accrued liabilities	90,000	85,000	5,000						
Accounts & notes payable	160,000	180,000		20,000					
4% mortgage bonds	500,000	400,000			100,000		103,500 Purchase	3,500 x	
Preferred stock	250,000	210,000			40,000		40,000 x		
Common stock	300,000	432,000				132,000	50,000 x	32,000 x 150,000 Sale	
Paid-in surplus	200,000	258,000				58,000		50,000 x 8,000 x	
							3,500 x	90,000 x	
Earned surplus	590,000	631,000				41,000	50,000 Dividends 100,000 x 3,400 x	107,900 x	
				85,000	85,000		85,000 Increase		
Change in working capital							64,000 x 4,000 x		175,900 Net funds from revenue
Profit and loss							107,900 x		
	\$2,090,000	\$2,196,000	\$145,000	\$145,000	\$445,000	\$445,000	\$997,300		\$997,300

Mr. C. R. Airey, B.Ec., A.A.S.A. graduated from Sydney University and now teaches accountancy at the Sydney (N.S.W.) Technical College. He has contributed several articles to "The Australian Accountant".

of an entry affects a working capital account, no place is provided for it, i.e., we can make only the non-working capital half of the double entry. But it is precisely such "unbalanced" entries which are significant for a fund statement. Consequently, a brief memorandum is placed against each of these items — "purchase", "sale", "dividend", etc. These memoranda, in conjunction with the titles of the accounts affected, are all that is necessary to extract the final fund statement from the work sheet.

It is not difficult to see why the columns balance, in spite of the inclusion of these one-sided entries. For collectively they are balanced by the net change in working capital, which is entered specially and described as an increase or decrease as the case may be.

Another special set of entries is made against the caption "profit and loss". Here are grouped the non-funds debits and credits to profit and loss account (e.g. depreciation), the debit side of the transfer of net profit to earned surplus and, as a balancing figure, the item described as "net funds from revenue transactions", which represents the result of "adding back" depreciation, etc., and of subtracting any non-funds credits such as the gain on realization of a fixed asset, if such had been entered to profit and loss account in the first place.

Having thus dealt with all the entries representing the information given in the problem, we must make a review of each account to see if the variations shown in the "other changes" section have been completely accounted for. If not, the necessary balancing figures must be inserted, and may be readily interpreted as purchases, sales, issues of stock, etc. This process is exactly the same as in the "T" account procedure. The final stage is the addition of the columns to arrive at a balance. The fund statement may then be simply "lifted out" of the work sheet, ignoring the figures marked "x".

It will be noticed that some of the entries made in the work sheet differ somewhat from those in Mr. Greer's "T" accounts. For instance, the amount \$103,500 has been debited in full to the mortgage bonds account, as if it had been posted straight from the cash book, and the \$3,500 premium has then been transferred to earned surplus. While this type of assumed ledger-keeping makes the fund statement easier to extract from the work sheet, it is of course not necessary to record the transaction in this way. The amount could just as well be split in the first place, but if so would have to be pieced together again in the final statement. However, it will readily be seen that this consideration has no bearing on the relative merits of this method and the "T" method.

I find that the procedure outlined in this article is readily understood by students, and now use it in my own teaching after a long period of experimenting with other approaches.

Recent Books

Analysis of Financial Statements, (4th ed.), by Harry G. Guthmann, Ph.D., C.P.A.; published by Prentice Hall, Inc., New York, 1953; pp. 568, problems and index; price \$9.35 U.S.

This book will hold little interest for the accountant who confines his field to the construction and presentation of financial statements. As Professor Guthmann states on the first page, "The accountant will find it valuable to study the analytical side of financial statements, in order to acquire the viewpoint of the users of his product and to give his work more than the mere technical accuracy required of certified statements".

Part I contains two divisions — a general review of the construction of the financial statements and a discussion the analytical techniques that may be applied to the various subdivisions of the statements. It includes a comprehensive and fascinating study of the significance, importance, and application of all the important ratios in use today. Throughout this section, the author draws from current American financial reports to illustrate the applications of these ratios. Extracts from regulations and directives published by mercantile and bank credit associations and the Securities and Exchange Commission are included as supplementary information.

Part II presents special characteristics and points of interest of three classes of business enterprises: public service industries, represented by railroads and public utilities; financial institutions

represented by commercial banks, insurance companies, and holding companies; and the mercantile and manufacturing corporations which are discussed only briefly.

A review of this book would be incomplete without a comment on the selected reference material included. As a guide to further investigation of specific problems the list of books provided is more than adequate.

This book is recommended to all accountants. Some will find limited practical application for the principles outlined. It will, however broaden their knowledge and increase their understanding of the peculiar problems facing other business organizations. Others who in the past have felt restricted to the formal financial statements will gain ideas which will prove invaluable in interpreting a company's activities to readers of its annual report.

C. L. MITCHELL, C.A.
University of British Columbia

Income Tax Appeal Board Practice, by R. S. W. Fordham, Q.C., LL.B.; published by CCH Canadian Ltd., Toronto; pp. 120, appendices and index; price \$6.00

A welcome addition to our meagre but growing selection of Canadian tax references. A small book — easy to read — which should be in the library of every tax practitioner.

The introduction and first chapters contain all that can be written on the

subject of the history of the present Income Tax Appeal Board, its constitution and procedure before the Board. The author, however, has gone far beyond the scope indicated by the title.

One chapter deals with appeals to the Exchequer Court. Chapters on rules of practice and procedure, evidence, the effect of English decisions, and legal principles should be read by every senior student.

A section devoted to expense deductions contains a handy reference and synopsis of decisions for and against taxpaying appellants which might be improved upon by indicating in each case whether the appeal was filed under the provisions of the IWTA or the present Act.

The author makes a strong case in support of the capacity of the Board as presently constituted to cope with the volume of appeals. One must admit the excellent job being done by the Board. In some circles it is argued that there should be more than three members and that at least two members should hear each case. The creation of a separate body with functions similar to that of the General and Special Commissioners in the United Kingdom

may still be desirable; it might facilitate the operation of the Board, help the individual taxpayer, and reduce the strain upon the individual members of the present Board. The author obviously feels this to be unnecessary, but his chapter on arbitrary assessments is perhaps an admission that the creation of some such body might be welcomed.

In his preface Mr. Fordham points out the important part now played by accountants in the field of taxation, referring to an address delivered on September 4, 1952 by Lord Justice Morris, but then in a second reference reclaims the field for our sister profession.

W. R. KAY, C.A.
Toronto, Ontario

Management Controls, An Annotated Bibliography, by Henry C. Thole; published by The W. E. Upjohn Institute for Community Research, Kalamazoo, Mich.; pp. 40; single copies obtainable without charge from the publisher

The volume of literature on management controls is growing rapidly. This useful bibliography consists of a selection and annotation of the most valuable books and articles in this area.

Professional Notes

News of the C.I.C.A.

TAXATION COMMITTEE

The Taxation Committee, under the chairmanship of Laird Watt, held its first meeting in Toronto on December 10 and 11 to consider briefs on taxation received from nine of the Provincial Institutes. The committee met early in January with the committee from the taxation section of the Canadian Bar Association. At that time joint recommendations of the two Associations were agreed upon in readiness for the presentation of a brief to the Federal Government.

COMMITTEE ON RECRUITMENT AND TRAINING

The committee held a further meeting on December 17, under the chairmanship of T. C. Kinnear, to study various features of training methods.

What the Letters "C.A." Stand For

Copies of a radio script prepared by The Canadian Institute and heard recently over Station CKCW Moncton were sent to the members of the Panel on Public Relations. Those taking part were Walter J. Macdonald, C.I.C.A. president, Ivor Laws, president of the New Brunswick Institute of Chartered Accountants, and Walter Dick of Moncton.

ALBERTA

Mr William Ireland, C.A. announces the admission to partnership of his son, Mr C. William Ireland, B.A., C.A. Henceforth practice of the profession will be carried on under the firm name of Ireland & Ireland, Chartered Accountants, with offices at 814-5 Lancaster Bldg., Calgary.

ALBERTA

Clarke & Gordon-Cooper, Chartered Accountants, 204 Wilson Electric Bldg., Calgary, announce the admission to partnership of Mr Hugh L. Fraser, C.A.

BRITISH COLUMBIA

McDougall, Trusler & Lavery, Chartered Accountants, announce the opening of an office for the practice of their profession at the Whittome Bldg., Duncan, B.C., with Mr Wm. K. Trusler, C.A. as resident partner.

* * *

Deloitte, Plender, Haskins & Sells, Chartered Accountants, announce the opening of an office for the practice of their profession in the Royal Bank Bldg., 675 W. Hastings St., Vancouver.

B.C. Students Society

The annual general meeting of the Students Society of the Institute of Chartered Accountants of British Columbia took place on December 15 at King George High School, Vancouver. Bernard Fahy, president, was chairman of the meeting. Reports covering the activities during the year were read by Howard Karras, treasurer, by Ian Adam, chairman of the entertainment committee, and by Bert Sproule, chairman of the education committee. W. Parker, C.A. and A. Jones were elected auditors for the coming year.

Mr D. Lukin Johnston, C.A., vice-president of the B.C. Institute, addressed the meeting.

MANITOBA

Deloitte, Plender, Haskins & Sells, Chartered Accountants, announce the opening of an office for the practice of their profession at 259 Portage Ave., Winnipeg.

ONTARIO

Messrs Geoffrey H. Ward, C.A. and William B. Buckley, B.Com., C.A. announce the formation of a partnership for the practice of their profession under the firm name of Ward, Buckley & Co., Chartered Accountants, with offices at 28 Duke St., Toronto.

Mr Benjamin T. Pelman, C.A. announces the opening of an office for the practice of his profession at 25 Lynn Haven Rd., Toronto.

Deloitte, Plender, Haskins & Sells, Chartered Accountants, announce the removal of their Toronto Office to the Wood Gundy Bldg., 38 King St. W., Toronto.

George A. Touche & Co., Chartered Accountants, Toronto, announce the admission to partnership of Mr John Alexander Orr, C.A.

Messrs Gilbert A. Doe, C.A. and Louis J. Shaughnessy, C.A. announce the formation of a partnership for the practice of their profession under the firm name of Gilbert A. Doe & Co., Chartered Accountants, with offices at 67 Yonge St., Toronto.

Messrs H. R. Churchill, A.S.A.A., C.A., and K. G. Myles, C.A. announce the formation of a partnership for the practice of their profession with offices at 203 Main St. S., Kenora.

Arthur I. Cole & Company, Chartered Accountants, announce the removal of their offices to 39 Spadina Rd., Toronto.

Messrs James S. Smith, C.A., Lloyd Dixon, C.A., and John P. Young, C.A. announce the formation of a partnership for the practice of their profession under the firm name of Smith, Dixon & Young, Chartered Accountants, with offices at 19 Melinda St., Toronto.

Riddell, Stead, Graham & Hutchison Chartered Accountants, 66 King St. W., Toronto, announce the admission to partnership of Messrs Roland A. Lachance, C.A. and Stephen Elliott, C.A.

ONTARIO

Mr Albert R. Donnelly, C.A., announces the admission to partnership of Mr James A. MacKillican, C.A. Henceforth practice of the profession will be conducted under the firm name of Donnelly & MacKillican, Chartered Accountants, with offices at Rm. 5, Bowldrome Bldg., Renfrew.

The partnership of Vardon, Punchard & Company, Chartered Accountants, was dissolved at December 31, 1953. Mr. S. E. S. Vardon, C.A., will continue practice of the profession in partnership with Mr Gordon J. Reid, C.A. under the firm name of Vardon, Reid & Company, Chartered Accountants. Mr J. K. Punchard, C.A. will continue his professional practice in partnership with Mr George M. Grant, C.A. under the firm name of Punchard, Grant & Company, Chartered Accountants. The offices of both firms are at 320 Bay St., Toronto.

R. H. Langlois & Co., Chartered Accountants, 18 Temperance St., Toronto, announce the admission to partnership of Mr C. A. Hauck, C.A. Practice of the profession will be conducted under the firm name of Langlois, Atkinson & Hauck, Chartered Accountants.

Neff, Robertson & Stone, Chartered Accountants, 112 Yonge St., Toronto, announce the admission to partnership of Mr John E. Goodwin, C.A.

Mr Paul F. Anttila, C.A. announces the opening of an office for the practice of his profession at 20 Rutan Bldg., Port Arthur.

Monteith & Monteith, Chartered Accountants, announce the admission to partnership of Messrs George E. Trethewey, C.A. and Robert F. Lightfoot, C.A. Henceforth the firm will carry on practice of the profession under the name of Monteith, Monteith & Co., Chartered Accountants, with offices at 42 Albert St., Stratford, 37 King St. E., Oshawa, and 302 Bay St., Toronto.

QUEBEC

Richter, Usher & Vineberg, Chartered Accountants, 660 St. Catherine St. W., Montreal, announce the admission to partnership of Messrs Howard Gilmour, C.A. and Norman Cohen, C.A.

SASKATCHEWAN

Mr I. Edward Basin, B.Acc., C.A. announces the admission to partnership of Mr Samuel Barsky, B.Acc., C.A. Henceforth practice of the profession will be carried on under the firm name of Basin & Barsky, Chartered Ac-

countants, with offices at Northern Crown Bldg., Regina.

J. R. Fewster & Co., Chartered Accountants, announce the removal of their offices to 321 21st St. E., Saskatoon.

Saskatoon C.A. Club

On Saturday, December 19, the Saskatoon Chartered Accountants Club entertained the members of the Council of the Saskatchewan Institute at a hockey game followed by a buffet luncheon and get-together.

News of Our Members

Mr Spencer H. Over, O.B.E., C.A. (Ont.), received a University of Rhode Island Award when the British Empire Club, of which he is founder and president, held its 25th university night at the Narragansett Hotel in Providence. The award, which was presented by Dr. Carl R. Woodward, president of the University of Rhode Island, is made from time to time for "outstanding achievement or noteworthy community service". The citation which accompanied the award reads in part:

"Devoted to the cause of good will among all men and mindful of America's priceless Anglo-Saxon heritage, you have seen your ideal realized in the British Empire Club of Providence — conceived, born, nurtured, and matured through your efforts . . . The good the club has accomplished in cementing the bonds of America with the mother country is beyond measure and beyond price."

Mr Walter J. Macdonald, F.C.A. (Man.), president of the C.I.C.A., spoke on December 8 to a St. James's Kiwanis Club dinner meeting in Winnipeg.

Mr Andrew G. McCaughey, C.A. (Que.), has been appointed assistant comptroller and internal auditor of Canadian Marconi Company, Montreal.

The December issue of *The Canadian Jeweller* contains an article by Mr Jack Barker, C.A. (Ont., Man.) entitled "Increase Profits through Adequate Stock Control".

Mr M. A. Bradshaw, F.C.A. (Ont.), has been appointed assistant general manager in charge of investments of the North American Life Assurance Company.

Mr Kenneth A. Miners, C.A. (Ont.), has been appointed secretary-treasurer of the Great Lakes Paper Company Limited.

Mr C. R. B. Salmon, M.C., C.A. (Ont.), has been appointed vice-president of the J. Arthur Rank Organization of Canada Limited, The Odeon Theatres (Canada) Limited, and J. Arthur Rank Film Distributors (Canada) Limited.

Mr Cyrille Belanger, C.A. (Que.), was the guest speaker at the December meeting of the Quebec chapter of the Society of Industrial and Cost Accountants of Quebec.

The two chief officers of the Newfoundland chapter of the Society of Industrial and Cost Accountants are both chartered accountants. Mr Bruce Feather, C.A. (Ont., Nfld.), is the new president and Mr Alec H. Ritcey,

C.A. (N.S., Nfld.), the vice-president. Mr J. C. Newland, C.A. (Que., Man., Nfld.) has been elected a council member of the chapter.

Mr J. C. Yolland, C.A. (B.C.), spoke recently to the Rotary Club of Rossland, B.C. on "How an Accountant Can be of Aid to a Small Business".

Dr George Moller, D.Jur., R.I.A., C.A.

(Ont.), was a recent guest speaker at the monthly meeting of the Junior Chamber of Commerce of Hamilton, Ontario.

Another Hospital Accounting Institute, arranged under the direction of Hudson, McMackin & Company, Chartered Accountants, was held in Moncton, New Brunswick last November. Delegates from hospitals in all the Maritime Provinces attended.

Obituary

Frederick Johnson

The Institute of Chartered Accountants of Manitoba regrets to announce the death of Frederick Johnson, F.C.A.

Mr Johnson, whose death occurred suddenly on December 8 last, was born in England in 1890. He came to Canada in 1913 and settled in Winnipeg, and on the outbreak of war in 1914 joined the 43rd Battalion, Queen's Own Cameron Highlanders. He was wounded in action, and on his discharge in 1917 returned to Winnipeg. He then became a student with the firm of Webb, Read & Co., later amalgamated with George A. Touche & Co. Having been admitted to membership in the Institute in 1921, he remained with the latter firm until 1926, when he commenced practice under the name of F. Johnson & Co.

He was elected to Council in 1931 and continued to serve on it until 1949. He was president from 1940-42 and became president of the D.A.C.A. (now C.I.C.A.) for the year 1944-45. He was raised to Fellowship in the Institute in 1947.

He took a particular interest in students' affairs and was very active in the courses set up by the Institute. When the University of Manitoba instituted its course in 1937 he was appointed lecturer in Accounting, and also continued on the special courses offered by the university for C.A. students. Later he undertook the teaching in Accounting for the requirements of the Law and Pharmacy courses.

To his widow and to his son, Dr. F. Allan Johnson, the members of the Institute offer their sincerest sympathy.

Examination Results

October 1953

ALBERTA

Final

Prizewinner: Alberta Institute gold medal and prize of \$25—J. E. Collins.

Passed: Allison, K. T.; Aitken, H. J.; Auck, H. R.; Baines, R. A.; Barrett, H. R. J.; Bateman, J. R.; Campbell, G. L.; Collins, J. E.; Davies, A. K.; Davis, W. P.; DePaoli, Enso; Dunaway, I. W. M.; Ennis, G. C.; Fowler, J. P.; Harris, R. G.; Hauff, G. A. R.; Howard, W. E.; Ireland, C. W.; Karney, W. M.; Kaufman, S. R.; Keroack, A. M.; Key, W. H.; MacDonald, Stanley; McGie, N. B.; McKinnon, R. R.; Mainwood, Ernest; Mair, G. W.; Moulding, D. A.; Niles, W. I. C.; Nobbs, Walter; Parkyn, R. M.; Pearson, G. E.; Ringrose, E. G.; Robinson, Pettet; Sagen, G. S.; Spark, William; Stansberry, J. W.; Toole, W. J. A.; Tupper, Miss J. E. F.; Watkins, G. W.; Yeoman, D. R.; Young, C. W.

Granted Supplementals: Baumbach, G. E.; Burgoyne, Norman; Carroll, L. H.; Grier, D. J.; Henderson, W. G.; McDowell, K. A. C.; Ramsay, A. D.; Shute, R. A.

Intermediate

Prizewinner: Alberta Institute prize of \$15—D. C. Christison.

Passed: Adams, M. S.; Christison, D. C.; Clelland, W. F.; Farmer, A. J.; McNamee, B. E.; Maxwell, J. R. M.; Mitchell, William; Roozen, P. I.; Sinclair, A. K.; Strang, D. W.; Talbot, D. W.

Primary

Prizewinner: Alberta Institute prize of \$10—G. F. Johnson.

Passed: Aagaard, Robert; Armstrong, J. G.; Barry, W. R.; Braden, G. A.; Bruha, R. J.; Burton, K. F.; Chan, D. S.; Christison, W. M.; Coppock, K. H.; Cyr, D. Z.; Davis, E. A.; Dawson, R. S.; Dreyer, C. J.; Duncan, R. E.; Ewens, E. J. M.; Flood, D. W.; Fox, N. H.; Gehmlich, R. A.; Greenwood, H. K.; Guidolin, D. A.; Hames, K. D.; Hanhart, Peter; Jess, D. J.; Johnson, G. F.; Kabeary, W. D.; Lazelle, H. K.; Leenders, M. H.; Lucas, C. I.; McNab, T. G.; Matthews, R. J. C.; Meikle, G. R.; Olson, V. K.; Opalka, W. A.; Oswald, E. E.; Patton, L. A.; Payne, Graham; Potheary, K. D.; Redgwell, R. E.; Rice, K. P.; Scanlan, J. J.; Seib, O. J.; Shaughnessy, T. J.; Shearer, I. D.; Siever, A. H.; Skitsko, M. D.; Smith, K. W.; Smyth, R. G.; Timmins, G. A.; Tomashavsky, A. R.

BRITISH COLUMBIA

Final

Prizewinner: C.I.C.A. silver medal and prize—W. P. Wallace.

B.C. Institute gold medal—W. P. Wallace.

Passed: Alves, D. R.; Avis, S. F.; Bedgood,

D. G.; Benson, K. P.; Bestwick, Leslie; Biddle, G. H.; Carter, J. H.; Castelan, Robert; Chambers, L. E.; Cliff, R. L.; Court, R. A.; Davis, M. E.; Docherty, J. S.; Dunn, H. R.; Ericson, A. H.; Estock, J. J.; Bernard,

Fahy, Gilbert, K. E.; Graham, R. B.; Harper, G. K.; Harwood, G. L.; Hughes, H. McD.; Jackson, A. H.; Jones, A. H.; Kerr, D. R. A.; Lindow, J. E.; McConville, C. G.; McConnell, O. R.; Macdonald, J. B. L.; McFarlane, H. E.; McKay, R. J.; McNicol, L. H.; McPherson, J. D.; Matheson, W. D.; Milroy, J. A.; Mullin, Derek; Newman, R. G.; Porter, D. K.; Potts, D. B.; Provost, J. H.; Roberts, D. T. C.; Smith, W. J.; Snelgrove, G. R.; Sykes, J. R. W.; Wallace, W. P.; Walton, A. E. M.; Woods, Bernard.

Intermediate

Prizewinner: B. C. Institute silver medal—James Stewart.

Passed: Barker, T. W.; Barr, J. F. C.; Bell, H. E.; Burrell, R. E.; Campbell, R. F.; Carr, J. W.; Davie, R. A.; Dewar, R. H.; Dewey, A. W.; Foxall, C. D. L.; Franey, B. V.; Freedman, R. M.; Gerrard, W. G.; de la Girouday, E. P. R. B.; Granger, H. M.; Granger, R. F.; Hammond, W. H.; Hampson, A. G.; Harbottle, A. E.; Harding, F. A.; Hendry, L. J.; Hewitt, P. T.; Hill, A. K.; Johnston, L. A.; Kelvin, Andrew; Klimovich, Alex.; Kwong, J. K.; Liverant, Robert; McAllister, D. M.; Macdougall, H. J. B.; McKee, O. C.; McLeod, M. C.; MacPherson, D. M.; MacPhee, R. L. E.; Marak, P. J.; Mulligan, G. H.; Notman, J. S.; Oswald, J. G.; Pantages, B. L.; Piskorik, John; Pryce, C. C.; Richards, N. R.; Rutherford, J. A.; Sandberg, C. E.; Schulli, G. R.; Steen, W. R.; Stewart, D. R.;

Stewart, James; Stewart, R. G.; Tamboline, R. D.; Tench, S. E. G.; Thomas, W. J.; Vogt, G. W.; Waddington, J. D.; Wood, J. A.

Primary

Prizewinners: B.C. Institute Bronze Medal—K. M. Steuart.

McIntosh, McVicar & Dinsley Prize of \$25 for highest marks in accounting and auditing—K. M. Steuart.

B.C. Electric Co. Ltd. Prize—D. W. Ellis.

Passed: Affleck, E. L.; Barter, P. C.; Bates, W. O.; Browne, D. C.; Buchanan, J. B.; Campbell, J. F.; Campion, R. G.; Carmichael, R. A.; Conkin, R. W.; Crawford, J. W. H.; Crawford, Robert; Crowe, E. C.; Daniel, James; Dickerson, R. W.; Dungate, J. G.; East, R. G.; Ellis, D. W.; Ellis, H. C.; Farley, Jack; Farmer, R. W.; Gingell, Frederick; Graham, A. J.; Green, G. A.; Hamel, H. L.; Hardie, J. B.; Hoff, J. P.; Hoffman, D. A.; Hume, W. C.; Johnstone, Robert; Jordan, K. E.; Kinnell, I. R. W.; Lauridsen-Hoegh, H.; Lawson, J. E.; Logan, R. I.; McAfee, G. W.; McCandless, B. K.; McDonnell, A. L.; McGee, D. A.; McNeil, D. B.; Meyerhoff, W. A.; Miachika, Anton; Mulder, P. H.; Parker, E. J.; Phillips, Gerald; Propp, Max; Sabiston, C. A.; Scotland, G. H.; Selman, D. C.; Shaw, G. K. G.; Shipley, G. R. C.; Spencer, D. A.; Stead, D. A.; Steuart, K. M.; Tabin, Gordon; Thwaites, K. H.; Wallace, K. A.; Williamson, I. G.

MANITOBA

Final

Prizewinners: T. Harry Webb gold medal and the Institute prize of \$100 — D. G. Gateson.

Institute prize of books—W. E. Shields.

Passed: Ball, F. A.; Bennington, V. V.; Bolt, K. R.; Brown, E. K.; Burke, B. T.; Busch, R.; Cobb, D.; Colley, G. M.; Dickens, S. A.; Engborg, G.; Farrington, J. P.; Fingold, N.; Fowles, J. M.; Froud, G. I.; Gardner, D.; Gateson, D. G.; Goyette, P. L.; Horne, G. A.; Jenkins, G. A.; Johnson, H. J.; Kowal, G.; Ligertwood, J. R.; Maher, A. W.; Miller, J. F.; Newman, B.; Nitikman, B.; North-

cote, W. B.; Ramsay, A. D. H.; Ruse, W. H.; Shields, W. E.; Sinclair, L. R.; Sutton, F. R.; Ward, S. A.; Wiebe, J.; Wildman, J. E. A.; Wood, G. D.; Woodcock, W. L.

Granted Supplementals: Ashley, G. S.; Cartwright, L. G.; Forrester, P. R.; Fryers, G. C.; O'Neil, D. M.; Schultz, W. A.; Tarrant, J. C.; Wankling, R. A.

Intermediate

Prizewinners: C.I.C.A. silver medal for the highest marks in Canada and the W. A. Henderson silver medal and Institute scholarship of \$50 — S. A. Martin.

D. S. Lofthouse Scholarship of \$25 — D. J. Hicks.

Passed: Anderson, D. A.; Austen, A. C.; Barnes, D. G.; Brener, M.; Clark, C. N.; Court, E. J.; Curtis, C. E.; Danna, F. A.; Dubowec, W.; Gault, G. R.; Gilchrist, R. A.; Gorrell, L. H.; Graham, J. B.; Hack, L. V.; Hamel, A. B.; Harold, A. R.; Havelock, I. J.; Hearne, J.; Hendry, T. B.; Hicks, D. J.; Johnston, T.; Kalef, G.; Labossiere, D.

H.; Large, H. C.; Lawton, J. K.; Leslie, K. M.; Levy, H. H.; Levy, J. M.; Lezack, S. I.; Martin, S. A.; May, W. C.; McIntyre, W. K.; McQueen, D. V.; McRitchie, A.; Moore, A. W.; Mott, R. J.; Paling, R. F.; Parsons, R. L.; Pinilo, R. T.; Pollock, E. R.; Rowan, G. S. R.; Rubel, T. J.; Rubin, H.; Smith, B. E.; Smith, W. A.; Spratt, H. P.; Taylor, W. C.; Tucker, P. H.; Vrooman, I. T.; Wickett, R. L.; Williams, F. C.

NEW BRUNSWICK

Final

Passed: Anderson, J. R.; Brooks, M. S.; Cherry, D. W.; Girdwood, G. G.; Richards, H. F.

Granted Supplemental: Quartermain, W. M.

Primary

Passed: Adair, R. P.; Bartlett, J. C.; Belliveau, D. F.; Cumberland, W. D.; Guthrie, J. P.; MacQuade, R. A.; White, G. D.; White, James.

Intermediate

Passed: Couturier, C. E.; McLeod, H. D.; Whalen, J. G. G.

NEWFOUNDLAND

Final

Passed: Earle, C. W.

Granted supplemental: Conway, J. W.

Granted supplementals: Dutot, C. J.; Hodder, E. H.; Moores, R. G.

Primary

Passed: Butler, H. G.; Cooper, Austin; Furlong, H. M.; Kennedy, G. L.; Nofall, G. H.
Granted supplementals: Baggs, J. R.; Hussey, G. F.; Morgan, Cyril; Randell, Alonzo.

Intermediate

Passed: Gardiner, P. J.; Garland, W. W.; Johnson, G. L.; Marshall, J. B.; Woolgar, F. D. R.

NOVA SCOTIA

Final

Prizewinner: N.S. Institute prize—O. P. Cormier.

Passed: Bishop, B. W.; Brown, W. A.; Cormier, P. O.; Evans, C. J.; Jessen, A. H.; Johnson, G. H.; MacBurnie, R. J.; MacLean, R. N.; Marshall, A. R.; McCully, L. D.; Sewell, Roy; Woodland, M. L.

Granted supplementals: Allen, J. A.; Campbell, R. M.; Durning, G. H.; Hare, J. G.; Hocking, W. A.

Intermediate

Passed: Amey, G. A.; Giles, R. C.; Gwynne-

Timothy, K. R.; Hiltz, G. J.; Palmer, P. A.; Petersen, P. C.; Porter, C. D.; Radford, J. E.
Granted supplementals: Carr, C.R.; Conrad, R. W.; Doane, G. L.; Doig, P. R.; Fillmore, F. G.; Forse, B. R.; Frederickson, E. A.; Gordon, W. E. R.; Jennings, W. T.; MacNeil, N. A.; McLaughlin, T. A.; Miller, N. K.; Morrison, John; Stewart, J. A.

Primary

Passed: Anderson, G. H.; Bustin, G. R.; MacDonald, N. S.; MacLeod, D. D.; McNaughton, H. A.; Peach, J. E.; Rushton, C. S.

ONTARIO

Final

Prizewinners: Ontario Institute gold medal and prize—Fred L. Karp.

E. R. C. Clarkson prize—Earl H. Orser.

George Edwards prize (Accounting)—Douglas E. Perrin.

W. T. Kernahan prize (Auditing)—Eric H. Johnston.

TORONTO

Passed: Adelkind, Samuel; Aldred, J. C.; Andrew, D. R.; Appleton, R. G.; Atkins, V. F.; Barr, R. A. W.; Bass, P. B.; Bernholtz, T. H.; Beynon, F. E.; Birenbaum, Abraham; Blake, R. R.; Bloom, Rudy; Brazier, Thomas; Brown, A. S.; Brown, H. A.; Brown, T. O. P.; Brown, V. A.; Buckstein, D. E.; Burch, F. W.; Burton, D. E.; Butcher, J. W.; Cameron, D. M.; Campbell, W. R. N.; Candan, T. R.; Carruthers, G. J.; Carson, J. A.; Carter, M. E. H.; Church, A. H.; Coates, Meredith; Cole, D. A.; Cooper, A. I.; Detenbeck, W. J.; Dickenson, A. T.; Dixon, D. A.; Donovan, J. M.; Draper, E. T.; Dunlop, D. A.; Edwards, G. S.; Ellis, R. B.; Ellison, N. F.; Elrick, K. E.; Fedder, Samuel; Fielding, R. A.; Fisher, Oscar; Fleming, D. M.; Fleming, P. E.; Forsey, A. S.; Frost, G. E.; Gilchrist, N. S.; Gill, G. B.; Gold, Irving; Grant, G. M.; Gray, G. C.; Green, E. W. H.; Greene, W. D.; Greenley, W. G.; Hahn, Z. A.; Hauck, C. A.; Hillis, T. G.; Hoover, D. C.; Howard, J. D.; Howe, W. V.; Howson, T. E.; Hurdle, W. H.; Iron, John; Johnston, E. H.; Jones, B. E. G.; Karp, F. L.; Kates, M. S.; Kraft, Bernard; Langhorne, J. A.; Leroy, M. A.; Levenstein, Lawrence; Levita, M. E.; Lewars, J. D.; Linn, K. G.; Loftus, S. B.; McDonell, R. J.; McEwen, D. R.; McFadden, J. S.; McGuffin, H. R.; McIntyre, George; McKeeman, J. R.; McLeod, G. D.; McMillan, D. R.; McRae, R. H. M.; MacArthur, J. R.; MacInnis, H. R.; Mackenzie, M. A.; Marks, S. C.; Mino, H. S.; Morgan, W. J.; Morley, R. W.; Mundy, G. H.; Orser, E. H.; Osborne, Michael; Parr, Edward; Pascaris, James; Pauloff, N. D.; Penny, W. F.; Phillips, C. S.; Pogson, R. W.; Pringle, H. D.; Prowse, D. F.; Pyzer, Allan; Roe, R. G.; Ross, M. W.; Ross, N. M.; Rothwell, M. R.; Rumack, J. G.; Salak, M. A.; Seddon, P. S.; Sharp, P. E.; Sherk,

C. E.; Sherman, J.; Shortly, J. L.; Shultz, T. E.; Sims, H. L.; Smith, D. W.; Souch, D. L.; Spence, J. A.; Stainsby, J. A.; Stapells, W. E. A.; Stevenson, F. L.; Stone, M. O.; Sullivan, P. J.; Tait, H. G.; Taylor, E. E.; Taylor, J. T.; Telfer, J. A.; Thompson, V. J.; Trewin, M. D.; Tyndall, D. W.; Vickery, H. G.; Wagman, William; Wallace, G. R.; Watson, W. T.; Webb, H. W.; Wettlaufer, N. R.; Wheeler, E. C.; Whelan, W. J.; Wickens, E. A.; Wileman, J. L.; Winship, R. C.; Yalofsky, B. L.; Yule, A. E.

Granted supplementals: Arbuckle, K. F.; Ashforth, A. R.; Caldwell, J. K.; Champion, R. D.; Chapman, J. E.; Clarke, J. E.; Clayton, W. T.; Cohen, Aaron; Davie, J. J.; Dougan, R. W. V.; Eisen, S. H.; Forsyth, T. J.; Foster, G. W.; Glicksman, M. H.; Hitchcox, A. R.; Johnson, V. L.; Litvack, Harry; McNulty, T. L.; McCullagh, W. R. Jr.; McGee, C. R.; McMulkin, P. B.; Moore, G. W.; Peters, Alan; Seed, J. A.; Sheard, J. H.; Shepard, A. B.; Sherman, Percy; Walling, J. W. H.; Wheeler, A. W. J.

HAMILTON

Passed: Cormick, H. R.; Crawford, J. A.; Cuddie, J. A.; Curtis, S. J.; Jones, C. G.; McAlister, C. H.; Moore, A. M.; Neale, R. R.; Owen, E. E. K.; Peirce, M. B.; Perrin, D. E.; Swing, W. F.; Taylor, J. B. Granted supplementals: Buck, C. G.; Donald, G. E. B.; Ducharme, L. A.; McGarvey, W. J.; Moore, James; Neale, G. V.

KINGSTON

Passed: Bayliss, F. M.; Campin, B. G.; Decourcy, T. J.; Newcombe, C. W.; Sinclair, D. M.; White, E. M.

KITCHENER

Passed: Battler, J. I.; Butler, W. L.; Dooley, P. G.; Morgenroth, L. J.; Walker, A. W. Granted supplemental: Ryley, T. E.

LONDON

Passed: Denning, G. F.; Fisher, E. N.; Lightfoot, R. F.; McDonald, F. B.; Morton, R. T.; Murphy, N. P.; Osmond, R. C.; Partridge, A. R.; Pennington, R. E.; Phillips, J. A.; Robb, D. B.; Walsworth, P. L.

Granted supplementals: Diegel, G. B.; Martin, E. W.; McGill, B. E.; Priest, S. J.

OTTAWA

Passed: Allen, V. D.; Carlyle, J. K.; Dixon, P. T.; Hurd, K. G.; Kirby, D. A. S.; Levesque, R. R.; McLean, H. I.; Moore, C. H.; Noel, J. A. G.; Prime, E. A.; Shepherd, J. L.; Stotesbury, M. J.; Wilson, G. W.

Granted supplementals: Ardley, D. S.; Dale, W. G.; Day, F. S.; Grant, J. C.; Schultz, K. B.; Sim, D. A.

WINDSOR

Passed: Allen, R. V.; Coulter, E. M.; Goodwin, R. A.; Johnston, C. R.; Lescombe, K. R.; Minns, B. E.; Wigle, S. L.

Granted supplemental: Stoneman, J. V.

CALGARY

Passed: Butler, G. R.

PORT ARTHUR

Passed: Poulter, F. L.

Granted supplementals: Bailey, W. C.; Thompson, G. H.

SAULT STE. MARIE

Passed: McKinnon, W. M.

SUDBURY

Passed: Birney, G. N.; Favretto, A. L.; Hunt, D. J.

Granted supplemental: Campbell, J. J.

TIMMINS

Passed: Tomlin, A. G.

Intermediate

Prizewinners: Ontario Institute first prize—Wm. A. Bradshaw.

Ontario Institute second prize—Robt. H. Crandall.

George A. Touche & Co. prize (Auditing)—Thomas M. Hall.

TORONTO

Passed: Ainslie, D. J.; Aldersley, W. J.; Alexander, H. H.; Allen, M.; Armel, H.; Bailey, J. G.; Ballett, A. W.; Balmer, F. R.; Barber, W. T.; Bell, R. D.; Besler, E. L.; Birney, G. C. W.; Blackman, S. L.; Bodley,

D. J.; Bone, B. C.; Bradley, D. L.; Bradshaw, W. A.; Browner, I.; Burgess, F. J.; Calvin, W. C.; Campbell, E. A.; Capel, R. G.; Ciglen, G. J.; Clancy, G. L.; Clarke, G. H.; Cleather, E. G.; Coles, W. C.; Colnett, B. E.; Corkill, J. C.; Corner, W. H.; Cory, T. E.; Cowan, D. S.; Crandall, R. H.; Cunningham, G. P. B.; Davies, F. E.; Durst, D. K.; Eckel, D. C.; Fairley, J. McL.; Farmer, D. W.; Feltmate, A. S.; Flint, G. G.; Ford, J. E.; Fox, S.; Frankel, I. L.; Freund, J.; Furlong, E.; Gardiner, J. E.; Gillespie, J. R. W.; Glenn, G. E.; Goldhar, J.; Goodfield, J.; Grosset, G. D. J.; Hack, W.; Hadley, J. D.; Haigh, J. D.; Hall, M. T. H.; Hamilton, A. R.; Hampson, L. E.; Harrington, P. T.; Harris, L. M.; Harrison, R. McN.; Harvey, K. J.; Hearn, J. W.; Henderson, W. D.; Hill, F. C.; Hodge, R. A.; Hook, E. W. B.; Hout, B. M.; Hubbell, H. G.; Hudes, H. M.; Isenbaum, S.; Jackson, E. T.; Jackson, N. J. E.; Jago, J. W.; Johnston, K. G. W.; Jones, J. E.; Jordan, R. W.; Kenning, R. T.; Klein, H.; Koyanagi, A.; Lass, M. H.; Laywine, C.; Liddle, J. P.; Lodge, L. K.; Louth, W. L.; McCallum, A. R.; McCallum, R. A.; McConnell, J. F.; McGeachie, J. A.; McVicar, J. W.; MacFarlane, H. H.; MacInnis, F. A.; Mackenzie, K. A.; MacLellan, S.; Maier, R. E.; Mandel, A.; Marshall, L.; Menard, C. A.; Miller, G. E.; Mills, K. A.; Milstein, I.; Mondrowitz, W. H.; Mortfield, L.; Movold, T. A.; Munro, W. R.; Murray, J. R.; Naish, A. J.; Needleman, J.; O'Neil, J. J.; Patterson, N. A.; Payne, M. C.; Pepler, R. S.; Perlman, M. W.; Peterson, Stanley; Petrie, W. P.; Posner, Zelik; Preston, D. O.; Prokopowich, Walter; Rankin, W. C.; Rayment, Reginald; Ritchie, D. J.; Ryley, A. C.; Sands, J. E.; Saunders, W. A.; Sauve, L. P.; Schwartz, Albert; Scott, F. E.; Schniffer, A. B.; Silver, Robert; Silverman, William; Skurka, Fred; Spicer, F. R.; Stal, A. L.; Stanley, J. H.; Stern, Floyd; Swartz, M. G.; Syme, G. E.; Thorman, R. I.; Thornton, R. C.; Timbrell, D. Y.; Trethewey, E. E.; Weinberg, H. H.; Weiss, Mortimer; Weppeler, B. H.; Whitehead, R. J.; Wiseberg, Leonard; Wishart, D. H.; Withey, R. J.; Wright, E. D.; Wright, W. C.; Wyse, C. H.; Zimmerman, A. H.

The late A. S. Schipper was also successful in the intermediate examinations.

HAMILTON

Passed: Baillie, B. A.; Banner, R. J.; Barton, W. F.; Evoy, R. O.; Harkness, A. J.; Hirniak, G. T.; Keegan, M. L.; Lott, R. W.; McAndrew, B. E.; McDonald, J. A.; McLachlan, M. R.; Murat, B. E.; Partridge, W. C.; Ross, R. B.; Ryan, T. D.; Smith, N. McC.; Walker, W. E.; Wimbush, H. A.

KINGSTON

Passed: Gorrie, Daniel.

KITCHENER

Passed: Headlam, A. H.; Lucyk, D. L.

LONDON

Passed: Cronin, J. J.; Hunter, J. K.; Iles, J. A.; Murphy, T. F. P.; Murray, G. A.; Parker, C. A.; Scott, W. S.; Smith, W. N.; Young, J. H.

OTTAWA

Passed: Ainsworth, W. A.; Benoit, B. P.; Brooks, H. P.; Byrne, D. J.; Fairfield, J. J.; Gravel, Alfred; Greenberg, Milton; Hobbs, J. D.; Kettles, J. K.; Latimer, W. W.; Martin, Richard; McCulloch, D. W.; Radburn, E. A.; Ross, D. M.; Sanders, J. J.; Shouldice, R. C.; Sinclair, G. M.; Smith, J. B.

SAULT STE. MARIE

Passed: Massicotte, T. W.

SUDBURY

Passed: Larocque, L. L.; Stockdale, J. E.

TIMMINS

Passed: Day, K. R.; Doner, M. N.; Gagnon, B. E.; Ylitalo, O. J.

WINDSOR

Passed: Copeland, W. R.; Ellingwood, R. G.; Hutchinson, Donald; Levi, J. E.; Nightingale, T. I.; Taylor, W. E.; Taylor, R. W.; Waters, A. E.

Primary

Prizewinners: Ontario Institute first prize—David W. Lay.

Ontario Institute second prize—Junn S. Kashino.

H. O. Glover prize (Accounting)—John R. Rathwell.

TORONTO

Passed: Aldred, G. A.; Alley, P. H.; Anderson, G. L.; Anson-Cartwright, R. H.; Armstrong, D. A.; Avery, George; Ayres, A. G.; Balderson, H. W.; Baptie, S. B.; Bates, J. C.; Birkbeck, C. W.; Black, H. N.; Blackstien, Marvin; Blumenfeld, H. V.; Bocknek, M. S.; Brown, David; Bulgin, Roy; Campbell, T. G.; Castendyk, J. R.; Christenson, E. G.; Chusid, S. S.; Collins, S. A.; Cooper, H. K.; Corn, J. G.; Cowitz, C. S.; Cross, J. C.; Cunningham, G. G.; Davey, R. A.; Davidson, R. E.; Dempsey, D. F.; Dittrich, Douglas; Doak, A. O.; Dorsey, K. W.; Dzipina, John; Earl, C. E. P.; Edwards, D. W.; Eisen, Leonard; Ellies, C. G.; Evans, E. R.; Feldt, G. M.; Finkelman, M. A.; Gangbar, Stanley; Garbuzinski, K. H.; Garipey, E. F.; Garner, A. J.; Glover, H. J.; Goldenberg, G. J.; Goldfarb, Stanley; Goldring, D. E.; Goodman, Leo; Graydon, J. M.; Grossman, J. H.; Gummy, W. W.; Hadley, H. S.; Hrabovszky, J. G.; Hunter, C. R.; Hunter, D. R.; Huntley, D. A.; Jackson, J. R.; Jasper, H. W.; Kashino, J. S.; Kelly, J. J.; Kennedy, M. H.; Kingsmill, T. F.; Kirkpatrick, R. M.; Koros, John; Leale, K. J.; Livesey, R. E.; Lloyd, T. H.; Lopatto, Stanley; Lustig, Oskar; McCarter, J. P.; McDowell, D. B.; McDowell, J. R.; McIntyre, K. E. G.; McIntyre, R. B.; Magi, A.; Maltby, E. K.; Markowitz, H. A.; Marmer, J.; Matsushita, R.; Maybee, D. J.; Merson, D. S.; Metcalf, G. K.; Miller, M.; Nayman, B. G.; Newman, S. T.; Nichols, L. M.; O'Hearn, R. S. J.; O'Keefe, B. J.; Philip, B. B.; Prenick, J. I.; Prest, G. A.; Putt, J. B.; Reesor, L. J.; Reynolds, G. A.; Robertson, L. A.; Ruland, H. K.; Rumack, E. M.; Russell, R. W.; Schilder, E.; Scott, J. S.; Selby, W. A. D.; Skippon, R. H.; Smith, C. W.; Smith, H. D.; Sone, A.; Spencer, R. N. F.; Sprackman, A. L.; Stamp, E.; Steeds, R. O.; Stephany, T. R.; Stewart, C. J.; Terhune, H. R.; Thompson, J. D.; Wareham, B. H.; White, D. J.; Wilson, R. F. D.; Wilson, W. G.; Wojtkowicz, C. J.; Wright, M. E.

HAMILTON

Passed: Alpaugh, J. H.; Bell, O. S.; Corbett, R. M.; Dalingwater, C. C.; Evans, M. G.; Gleicher, J.; Green, P. D.; Hawkrigg, M. M.; Hutchings, R. R.; Jones, N. J.; Lay, D. W.;

Luciani, A. J.; MacDougall, R. B.; Mackay, B. G.; McCully, G. J.; Sinnamon, E. T.; Vlad, W.; Yeilding, J. L.

KINGSTON

Passed: Bird, R. G.; Teepell, R. H.

KITCHENER

Passed: Ariss, G. T.; Donald, J. R.; Dyck, E. W.; Eby, J.; Fast, R. V.; Shamas, A.

LONDON

Passed: Crocker, L. W.; Cronkwright, G. E.; Helm, D. F.; Houlden, J. E.; McIntyre, P. R.; Philp, R. D.; Rathwell, J. R.; Ronson, J. C.; Salter, R. B.; Smith, J. R.; White, A. D.; Willson, J. R.

OTTAWA

Passed: Allen, J. G.; Boardman, B. F.; Bowes, T. R.; Calderwood, J. A.; Chatelain, R. J.

PRINCE EDWARD ISLAND

Final

Passed: Garrett, A. J.; Hennessey, H. R.; Williams, H. G.

Intermediate

Passed: Andrew, D. C.; Condon, H. M.; Dennis, G. D.

C.; Dossett, J. A.; Franklin, J. W.; Greenberg, B.; Huband, C. M.; Jenkins, R. G.; Johnson, P. L.; Kirkconnell, T. W. I.; Le Sueur, E. M.; Lindsay, W. F.; Logue, C. A.; Matte, R. P.; McAdam, W. V.; McKenna, W. J.; Renaud, G. R.; Seguin, P. E.; Sproule, R. A.

PORT ARTHUR

Passed: Johnston, G. I.; Meader, J. K.

SAULT STE. MARIE

Passed: Yurechuk, W.

SUDBURY

Passed: Walli, S.

WINDSOR

Passed: Corbett, W. T.; Crookes, J. F.; Martin, R. V. D.; Nishiyama, H.; Skinner, R.; Smith, S. R.; Spencer, W. J.; Whiteman, E.

Primary

Passed: Arsenaault, J. N.

QUEBEC

Final

Prizewinners: Gerald J. Wareham—gold medal of The Institute of Chartered Accountants of Quebec and C.I.C.A., also The Chartered Accountants Students Society war memorial prize for highest marks in Auditing.

Richard A. Wyld—Lieutenant-Governor's silver medal and Institute prize for second highest standing in the Province of Quebec. Jack Richer—Institute prize for third highest standing in the Province of Quebec.

Passed: Adams, John W.; Allaire, Joseph R.; Arcand, J. Aurèle L.; Badnager, Alva A.; Balantyne, Ian A.; Biduk, Vasily (Bill); Boisjoli, Joseph L. A.; Boisvert, J. P. Roger; Burgess, Charles L.; Campbell, Ian B.; Chamberland, J. A. T. Claude; Clamer, Herman H.; Clarke, Henry A.; Cohen, Isadore; Cooper, Norman

H.; Cormier, J. Bruno M.; Couture, Roger; Crockett, David J.; Cunningham, James W.; Davis, Abraham M.; DeRosa, John; Doray, Paul; Drobetsky, Sol; Duby, Ernest; Dunn, Donald E.; Fischer, Walter; Fleming, James D.; Fortier, J. Francois; Galarneau, Joseph R. R.; Gold, Jack R.; Grieve, James D.; Guenette, Guy R.; Hollinger, David M.; Hoyland, Robert B.; Hudon, J. Charles; Huggett, Donald R.; Jackson, Thomas C.; Jacques, J. Alphonse L. R.; Johnson, Phillip S.; Jones, Robert W.; Kay, James J.; Kendall, George C.; Kinsella, Howard C.; Kobayakawa, Masao; Kredl, Otto; Lamarine, M. Laurent; Lee, Geddes R.; Leebosh, Bernard H.; Léveillé, Joseph D. O.; Maged, Jack; Martin, Alan G.; Melrose, William A.; Mendelman, Bernard M.; Miller, Maurice A.; Morgan, John H.; Morin, Roger; Morris, Morton (Moses); Morrison,

John S.; Mundy, George E.; McCarther, Cyril R.; McCormack, John M.; McElligott, Robert E.; Nurse, Edward P.; Ouimet, Joseph G. L. P.; Pincott, John H.; Prefontaine, Gerald L.; Prinzse, Simon R.; Ramey, Ronald A.; Redfern, Thomas L.; Roach, Howard; St. Louis, J. Napoleon M.; Sazant, Harold; Simoneau, Hector; Smyth, Thomas G.; Solomon, David; Souchereau, Charles R.; Stein, Max; Tanguay, Joseph E. L. M.; Tessler, Hyman; Trivett, Edward B.; Voelker, Albert R.; Ward, Joseph J.; Wareham, Gerald J.; Weir, John P.; Whitley, Roland K.; Wilson, Harold B.; Wilson, Russell W.; Wormington, Ernest J.; Woods, George L.; Wyld, Richard A.

McGill Licentiate Candidates: Ahern, Norman J.; Ball, John L.; Baker, David C.; Becker, Bruce H.; Bigelow, John W.; Black, Desmond E. M.; Bouchard, Robert; Briant, Peter C.; Buzan, William; Corrigan, Harold; Crevier, Ovila; Doran, John B.; Dougherty, John P.; Ferrier, David A.; Fillion, Maurice; Francoeur, Leopold; Heney, J. J.; Hill, W. Leslie; Holtby, Albert L.; Jones, Hugh A.; Lafranchi, G. Louis; Macaskill, Donald B.; McColl, Alan C.; Mendelssohn, Joseph; Milne, George H. F.; Moss, Arthur B.; Neftin, Morris; Parsons, Ross L.; Patton, W. Allan; Patterson, Ian G.; Paul, Kenneth H.; Quain, Redmond; Rainville, Jacques; Richer, Jack; Scott, Kenneth H. H.; Thomas, R. M.; Tobenstein, Miss Muriel; Trott, John R.; Watson, Donald E.; Weston, George W.; Worrall, Robert G.

L'Ecole de Commerce de Laval Licentiate Candidates: Blier, Camille; Bouchard, Pierre D.; Boulet, René; Côté, Adrien; Côté, Marie-Raymond; Dessurault, Gérard; Dugal, Justin; Duguay, Jean-Paul; Giguère, Jean-Pierre; Grenier, Roger; Jacob, Marcel; Jourdain, Grégoire; Lahaie, Alexandre; Lamy, Jean-Paul; Lemieux, Raymond; Martel, Paul; Melançon, Rodolphe H.; Rheault, Georges; Sergerie, Gérard-Eustache; Tremblay, P. Gaston.

L'Ecole des Hautes Etudes Commerciales de Montréal Candidates: Borduas, Georges; Quesnel, Marcel; Bergeron, Gilles; Robillard, Léo; Dumais, Bertrand; Rondeau, Louis P.; Séguin, Richard; Richard, Maurice; Lafrance, Germain; Goyette, Pierre; Bourgeois, Jacques; Dussault, André; Lamoureux, Hébert; Perreault, Marcel; Chalifoux, Gérard; Roussel, André; Moranville, Richard; Prénoveau, J. J.; Dupont, Jacques; Tulk, Frédéric; Landry, Gilles; Mar-

inier, Guy; Raymond, Gérard; Gauthier, J. Y.; Bessette, Marcel; Lambert, Yvon; Léveillé, Gilles; Boucher, André; Beaudin, Guy; Beaudoin, Pierre; Bouchard, Guy; Legris, Bernard; Alarie, Raymond.

Granted supplementals: Albert, Bernard L.; Anderson, Henry N.; Anderson, James M.; Anderson, Robert B.; Belanger, Joseph G. L.; Borts, Arnold; Caron, Edmond; Chadwick, William S.; Chappelaine, Eusebe P. P.; Chouinard, Pierre; Clegg, Johnston; Cooke, Stuart; Coveyduc, Albert L.; Davidson, Duncan H.; Desnoyers, J. Wilfrid R.; Dubrule, Marcelin, R.; Eidelman, Louis; Gingras, Leon-Paul; Gold, Morris; Greenberg, Jerry S.; Klar, Bernard S.; Leach, Gordon E.; L'Herault, J. Jean J. A.; Mathieu, Roger; McGovern, D'Arcy J.; McTaggart, Lloyd G.; Michaud, Jos. R. H.; Ross, Peter L.; Taylor, William E.; Touchette, Marcel; Vance, Kenneth E.; Wallace, Michael S.; Warner, Harry C.; Wilkinson, David S.

McGill Licentiate Candidates: Baker, John L.; Briggs, Edwin M.; Bush, Francis D.; Chalfour, Paul; Cherry, Raymond; Dale, Harold I.; Endman, Louis; Fairlie, John; Golt, Melville D.; Karkovsky, Bernard; McLaughlin, Walter E.; Miller, Morley B.; Murch, Dennis; Orchin, Robert K.; Patterson, Brian W.; Perry, John; Shackell, Ralph A.; Smith, Maxwell; Topping, Frank A.

L'Ecole de Commerce de Laval Licentiate Candidates: Beaulieu, Gérard; Blouin, Jean-Paul; Cloutier, Claude; Dion, Yves; Gagnon, André; Huard, Yvon; Kirouac, Raymond; Leblanc, Georges-Henri; Potvin, Yves; Renaud, Emmanuel; Robichaud, Mlle Thérèse; Robitaille, Roger.

L'Ecole des Hautes Etudes Commerciales de Montréal Candidates: Lefaivre, Jean Guy; Turgeon, Robert; Camu, Marcel; Dolbec, Georges; Bilodeau, Robert; Castonguay, J. B.; Gendreau, Pierre; Landreville, C. E.; Paquin, Pierre; Beaulieu, J. M.; Ouellette, Roger; Richard, François; Blanchet, Roger; Chagnon, J. Raynald; Bourgoing, Jules; Tellier, Robert; Hébert, Jean Paul; Gagnon, Joseph; Ethier, Lucien; Boissonneault, Serge; Bédard, Gaston; Cousineau, J. Louis; Marsan, Edmond; Leduc, Jean Paul; Lemay, Hermann; Prud'homme, Yvon; Landreville, Jean; Dupras, Maurice; Frappier, Jean Louis; Trotter, Guy; Charbonneau, Claude.

Intermediate

Prizewinners: Miss Jacqueline Paradis—Institute's silver medal for highest marks in the Province, also Chartered Accountants Students' Society War Memorial Prize for highest standing in Auditing in the Province of Quebec.

Winners of Lieutenant-Governor's bronze medal and Institute prize—J. G. H. A. Provost, L. J. G. Doucet—Tied for second highest standing in the Province of Quebec.

Institute Prize for third highest standing in the Province of Quebec — Ross W. King.

Winner of the Chartered Accountants Students' Society war memorial prize for second highest standing in Auditing in the Province of Quebec — Israel Herlich.

Passed: Adelstein, Issie; Allard, Yvon; Altenhaus, Joe; Apse, Alfred; Barbeau, J. R. H.; Bartlett, William G.; Brisson, Reo; Brown, Barry J.; Brown, Murray K.; Buckley, John G.; Burbidge, Patricia A.; Charbonneau, Claude; Collin, Paul E.; Corber, Marvin M.; Cramer, David I.; David, Maurice R.; Deeks, Douglas J.; Denton, William D.; De Palma, Maurizio; Dion, Louis G.; Doucet, Louis G.; Farrell, Peter; Gagnon, Jean-Claude; Gammon, R. George H.; Garbacz, Henry; Gaudet, Jacques A.; Gendron, Yves G.; Geoffrion, Pierre; Goyette, Maurice F.; Grief, Philip; Grigg, Ronald W.; Gruman, Victor; Hamilton,

Bernard M.; Hartwick, William G.; Hébert, G. A. A.; Hébert, J. A. Paul; Herlich, Israel; Houston, Walter S. F.; James, Roy N.; Jarry, Lucien E.; Katz, Milton; King, Ross; Kollman, Louis; Kolodny, Philip; Kozlov, Eddie; L'Abbé, J. Robert; Lacourse, J. Louis; Lamarche, J. E. C.; Lamarre, L. P. Bertrand; Lande, Abie; Lavigne, Treffe C.; Layton, Douglas D.; Lazar, Leopold; Leclair, Gaston Y.; Levine, Fred P.; Levitsky, Mortimer S.; Lizzi, Bruno; Luke, Peter S. C.; MacFarlane, J. F.; MacNair, Donald E.; Mandelcorn, L.; Markland, E. B.; Martin, Simon; Maynard, John A.; McAlpine, Alpine J.; Blumm (Moreau), Arthur F.; Moreau, J. Edouard P.; Murray, George G.; Murray, Michael J. A.; Neale, Ronald C.; Orgee, Eric W.; Paradis, Jacqueline A.; Parker, Douglas M.; Ponton, J. A. Arthur; Prézeau, E. Roland; Provost, G. H. Roger; Ranger, Jean B.; Riccio, Michele; Robinson, Henry A.; Rochford, Robert B.; Rosen, Martin; Rosen, Saul; Rosen, Stanley; Ross, Mortimer; Roy, Achille Claude; Sacks, Jerome Martin; Schmeer, Issie; Sewell, Stephen W.; Sharpe, John A.; Singer, Ronald; Skulski, Roman; Smith, Herbert; Smith, James C.; Spencer, R. Duncan; Stilwell, Kenneth C.; Sullivan, Harvey E.; Tremaine, Trevor F.; Tremblay, Ludger R.; Tomkins, Alexander R.; Vaillancourt, Jean-Yves; Wilson, Kenneth S.; Wyatt, David G.; Yaros, Saul; Yergeau, Jean G.; Young, D. G. Drummond.

SASKATCHEWAN

Final

Prizewinner: Watson Sellar award for highest marks in auditing, Victor Ferguson award for highest marks in accounting, and Dean Neilson medal for highest standing—David W. McClement.

Passed: Ayers, A. G.; Dakin, G. L.; Fowke, V. C.; Galon, George; Hnatiuk, T. T.; James, Cyril; Johnson, Shirley; Logan, A. Keith; Lowthian, S. R.; McClement, D. W.; Reynolds, E. J.; Rolfe, K. C.; Taylor, J. T. B.; Tomney, J. D.

Granted supplementals: Boulding, W. H.; Gibson, D. G.; Gibson, J. A. S.; Gregory, T. H.; Jacobs, R. L.; Leier, M. S.; Sinnett, F. J.; Walters, E. A.

Senior

Passed: McMaster, W. G.

Intermediate

Passed: Jackson, R. D.; Koehn, Harry; Sather, R. M.; Sax, T. N.; Schubert, W. K.; Smallshaw, George; Sturgeon, L. W.

Granted supplementals: McFee, T. R.; Woodhouse, G. D.

Primary

Prizewinner: Prize of \$25 — R. C. Campbell.

Passed: Bachiu, W. J.; Campbell, R. C.; Degner, A. W.; Jeffery, R. W. J.; Mitchell, L. R.; Murdoch, Ronald; Polischuk, R. E.; Peppler, H. W.; Ribchester, Robert; Rote-liuk, E. H. J.; Topham, Hector; Walker, V. B.

Accounting Research

By Gertrude Mulcahy, B.A., C.A.
The C.I.C.A. Research Department

PROSPECTUSES

A COMPANY incorporated under the Companies Act, 1934 (Canada) cannot offer securities to the public unless it has prepared and filed a prospectus in respect of the proposed issue. The actual preparation of the prospectus is the responsibility of the directors of the company, but it must include specified statements upon which the auditor must express his opinion.

In 1947 the Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants set out, in its Bulletin No. 2, the minimum standards of professional practice which should apply in respect of prospectuses. Although the auditor's first concern is with the financial statements included in the prospectus, the committee stated that the auditor should review the entire circular before it is printed in order to ascertain that, in his opinion, the contents, so far as they are related to matters with which he is familiar as a result of his examination, are not misleading. Unless given such an opportunity, the auditor should not permit the use of his opinion in the circular.

Pro Forma Statement

Although the governing statutes do not require the inclusion of a pro forma balance sheet in the prospectus, the directors of many of the companies offering securities have made use of this type of statement to reflect the impact of the proposed financing on the financial position of the company. The presentation of the balance sheet required by law and of the pro forma balance sheet on a comparative basis, as in Example 1, permits the reader to see the effect of the financing transaction at a glance.

The Committee on Accounting and Auditing Research stated that if a pro forma statement is issued, "it is important that it be clearly labelled as such and that complete disclosure be made of the underlying assumptions on which the statement is predicated. An opinion should not be expressed on a pro forma balance sheet unless there are firm commitments from responsible parties and reasonable assurance that the company's position will in fact resemble that shown by the statement."

Example 1

XYZ COMPANY LIMITED and Subsidiary Companies

CONSOLIDATED BALANCE SHEET AND PRO FORMA CONSOLIDATED BALANCE SHEET as at December 31 1952

After giving effect as at December 31, 1952 in the pro forma consolidated balance sheet to the undernoted transactions and proposed transactions:

1. (a) The issue and sale on March 6, 1953 of 100,000 common shares without nominal or par value for a consideration of \$3,387,500.
 (b) The charge to earned surplus of an amount of \$20,000 in respect of estimated expenses of the issue and sale of such shares.
2. (a) The proposed issue and sale of \$7,500,000 principal amount of 5% Debentures, 1953 Series for a consideration of \$7,233,000.
 (b) The charge to earned surplus of an amount of \$302,000 in respect of the discount and estimated expenses relating to the proposed issue and sale of such debentures.
3. The subdivision, sanctioned by the shareholders on April 13, 1953 and confirmed by supplementary letters patent dated April 25, 1953, of each of the authorized common shares without nominal or par value of the company, both issued and unissued, into four common shares without nominal or par value.

ASSETS

	Balance Sheet	Pro forma Balance Sheet
CURRENT ASSETS:		
Cash	\$ 1,840,174	\$ 12,460,674
Call loan	500,000	500,000
Accounts receivable, less provision for doubtful accounts	6,867,554	6,867,554
Inventories of finished products, raw materials and supplies, valued on the basis of the lower of cost or market	7,710,173	7,710,173
Prepaid insurance	301,616	301,616
	<u>\$ 17,219,517</u>	<u>\$ 27,840,017</u>
FUNDS SET ASIDE TO COMPLETE CONSTRUCTION IN PROGRESS:		
Call loans	\$ 2,000,000	\$ 2,000,000
INVESTMENTS:		
Listed shares (quoted market value — \$243,065)	\$ 260,385	\$ 260,385
Company's own bonds, 3½% series "B" purchased for sinking fund instalment due August 1, 1953	50,000	50,000
	<u>\$ 310,385</u>	<u>\$ 310,385</u>
FIXED ASSETS:		
Valued at accumulated cost less proceeds of sales, except in the case of properties acquired from certain subsidiary companies which are valued at depreciated reproduction values as appraised by Canadian Appraisal Company Limited in 1940, 1941 and 1943—		
Land	\$ 1,417,752	\$ 1,417,752
Buildings, plant, machinery, equipment, patents (of which the unamortized balance is \$240,000) and mineral leases	\$ 38,817,196	\$ 38,817,196
Less: Reserve for depreciation	15,020,090	15,020,090
	<u>\$ 23,797,106</u>	<u>\$ 23,797,106</u>
Cars and trucks, less accumulated amortization of \$284,350	\$ 260,670	\$ 260,670
Total fixed assets less reserve for depreciation	<u>\$ 25,475,528</u>	<u>\$ 25,475,528</u>
	<u>\$ 45,005,430</u>	<u>\$ 55,625,930</u>

LIABILITIES, CAPITAL AND SURPLUS

	Balance Sheet	Pro forma Balance Sheet
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 4,586,812	\$ 4,641,812
Accrued interest on funded debt	204,049	204,049
Provision for income and other taxes	1,008,064	1,008,064
Dividend declared on preference shares	75,000	75,000
Dividend declared on common shares	225,000	225,000
	<u>\$ 6,098,925</u>	<u>\$ 6,153,925</u>
FUNDED DEBT:		
First mortgage bonds—		
3½% Serial bonds, series "A", maturing \$250,000 annually on August 1, 1953 to 1957	\$ 1,250,000	\$ 1,250,000
3½% Sinking fund bonds, series "B", due August 1, 1970	4,150,000	4,150,000
	<u>\$ 5,400,000</u>	<u>\$ 5,400,000</u>
Debentures—		
5% Sinking fund debentures, 1952 series	10,000,000	10,000,000
5% Debentures, 1953 series	—	7,500,000
	<u>\$ 15,400,000</u>	<u>\$ 22,900,000</u>
INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARIES:	\$ 417,925	\$ 417,925
CAPITAL STOCK AND SURPLUS:		
Capital Stock—		
Cumulative redeemable preference shares, each of a par value of \$23.50, with annual dividend of \$1.00 payable quarterly —		
Authorized and issued — 300,000 shares	\$ 7,050,000	\$ 7,050,000
Common shares without nominal or par value—		
Authorized — 1,000,000 shares (4,000,000 sub- divided shares from April 25, 1953)		
Issued — 600,000 shares	7,141,863	
— 700,000 shares (2,800,000 sub- divided shares from April 25, 1953)		10,529,363
Earned surplus	8,896,717	8,574,717
Note: The debenture trust agreement contains re- strictions on the declaration of common share dividends and on the redemption of capital stock.		
	<u>\$ 23,088,580</u>	<u>\$ 26,154,080</u>
	<u>\$ 45,005,430</u>	<u>\$ 55,625,930</u>

AUDITOR'S REPORT

To the Directors,

We have examined the consolidated balance sheet and pro forma consolidated balance sheet of XYZ Company, Limited and subsidiary companies as at December 31, 1952 and have obtained all the information and explanations we have required. With the exception of three subsidiary companies whose accounts have been examined and reported upon by other chartered accountants, our examination included a general review of the accounting procedures of XYZ Company, Limited and its subsidiary companies and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the combined state of affairs of XYZ Company, Limited and subsidiary companies at as December 31, 1952, according to the best of our information and the explanations given to us and as shown by the books of the companies which we examined and the audited statements of the subsidiary companies whose accounts we did not examine.

In our opinion, the accompanying pro forma consolidated balance sheet fairly presents the financial position of XYZ Company, Limited and subsidiary companies as at December 31, 1952, after giving effect as at that date to the transactions and proposed transactions as set out in the heading of the balance sheets.

(Signed) ABC & CO.,
Chartered Accountants

Setting out the balance sheet and pro forma balance sheet in comparative form simplifies the auditor's report thereon. In order to express an opinion upon a pro forma balance sheet the auditor must have examined the balance sheet and reviewed the effect of the proposed financing. Grouping the two statements, as in Example 1, allows the auditor to express his opinion upon both statements with only one recital of the extent of his examination.

Use of Cents

It is interesting to note that in the comparative balance sheet and pro forma balance sheet, the current asset section of which is shown as Example 2, amounts are given down to cents whereas in the accompanying statement of earnings amounts were rounded off to even dollars.

Example 2

CURRENT ASSETS:	Pro Forma	
	Balance Sheet	Balance Sheet
Cash	\$310,103.86	\$2,670,103.86
Accounts receivable, less provision for doubtful accounts	967,503.44	967,503.44
Materials and supplies, as shown by book records and valued at average cost as certified to by responsible officers of the company	1,197,094.91	1,197,094.91
Guarantee deposits	27,000.00	27,000.00
	<u>\$2,501,702.21</u>	<u>\$4,861,702.21</u>

Notes on Assessment of Taxes

A considerable number of statements of earnings include a note along the following lines:

"The above statement of earnings reflects income and excess profits taxes as assessed up to and including the year ended December 31, 1951, and an estimated adequate provision for income taxes for the year ended December 31, 1952, and for the seven months ended July 31, 1953," or "Taxes on income levied by the Government of Canada have been assessed to September 30, 1949. Taxes on income shown above include the amount of taxes so assessed and the amount of taxes estimated where assessments have not yet been received."

Such notes were often necessary in the years immediately following World War II because of the uncertainties arising out of excess profits tax appeals and contracts renegotiation. However, these problems have now been settled, and it is likely that there are extremely few instances in which the taxes payable cannot be estimated with a reasonable degree of accuracy. To indicate the years for which taxes have not been assessed and at the same time indicate that adequate provision for taxes has been made or fail to indicate any unusual items or questions of dispute is apt to cloud rather than clarify the presentation.

Reports of Other Auditors

In considering the reliance to be placed on the work performed by other auditors, Bulletin No. 2 stated: "A chartered accountant should not sign any opinion unless he has knowledge of the company's affairs and has made some direct examination himself. If, for certain subsidiary companies and branches, he relies on the reports of other accountants, he should have direct communication with such other accountants and advise them that he will rely upon their opinions in incorporating the figures reported upon with those examined by himself in the preparation of his report on the prospectus under consideration."

Examples 3, 4, and 5, taken from prospectuses issued during 1953, suggest variations in practice in this respect.

The recommendation above does not suggest that the auditor must state specifically that he has been in direct communication with the other accountants upon whose opinions he proposes to rely. However, the wording used in examples 3 and 4 gives the impression of indicating a somewhat more restricted practice in this respect than is indicated in example 5. If the practice followed in all three cases was the same, it is unfortunate that the various wordings used do not give the same impression. That of example 5 appears to be more informative.

Example 3

We have made an examination of the books and accounts of the Company for the three year and seven month period ended July 31, 1953 and have obtained all the information and explanations we have required. Our examination included tests of the accounting records and supporting evidence and such other auditing procedures as we considered necessary. We have also reviewed the financial statements of the company as audited by, Chartered Accountants, for the seven year period ended December 31, 1949.

Based upon such examination and our review of the company's financial statements and auditors' reports for the years 1943 to 1952 inclusive and the seven months ended July 31, 1953.

we report that in our opinion the above statement fairly presents the earnings of the company for the period specified on the basis indicated in the above statement and relative footnotes.

(Sgd.)
Chartered Accountants

Example 4

The combined earnings statement above has been prepared by us from our own audited statements except in the case of Ltd. and Ltd. which were audited by another firm of chartered accountants to June 30, 1950. We have accepted their reports without further verification.

We report that in our opinion the above statement, when read with the footnote thereto, fairly presents the combined earnings of the above companies for the periods shown.

(Sgd.)
Chartered Accountants

Example 5

We have examined the above statement of consolidated profits of Company, Limited and subsidiary companies for the ten years ended December 31, 1952. For the nine years ended December 31, 1951, and in the case of three subsidiary companies for the year ended December 31, 1952, our examination was based on reports of other firms of chartered accountants who were the appointed auditors of the companies and who have reported on the consolidated profits and on the consolidated annual accounts for such years. For the year ended December 31, 1952 we have examined the books and accounts of the companies, except for the three subsidiary companies mentioned above.

Based on such examinations, we report that in our opinion the consolidated profits of Company, Limited and subsidiary companies are presented fairly in the above statement of consolidated profits for the ten years ended December 31, 1952.

(Signed)
Chartered Accountants

Future Depreciation on Higher Asset Values

Where the security issue is being made to acquire the assets of another business, the value at which these assets are to be incorporated in the accounts is important in estimating the future earnings of the company. For example, where the cost to the purchaser is significantly higher than the value recorded on the books of the vendor, the depreciation provision

included in the vendor's statement of earnings for the prior years will not give a proper basis for estimating the depreciation to be charged against the future earnings.

Recognizing the impact upon future earnings of such a change in the basis of valuation of assets, the auditor of a company annexed the following note to the statement of earnings included in a prospectus:

Notes: (1) Depreciation charges shown in the above summary are the amounts provided in the accounts of Limited and (Canada) Limited in respect of buildings, machinery and equipment used in the rod, wire and cable business of the companies. On the basis of the purchase price of the assets to be acquired by Limited a reasonable annual provision for depreciation calculated on the straight line basis would be approximately \$428,252. Under income tax regulations, which prescribe the diminishing balance method of depreciation, a larger amount could be provided in the initial years of operations, and this procedure may be adopted.

In this case the annual charges for depreciation for the three most recent years were approximately \$185,000, \$280,000 and \$308,000 respectively.

Depreciation and Appreciation

In one prospectus issued in 1953 the auditor, in describing the basis of the depreciation provision included in the statement of earnings, stated that for the year and one-half subsequent to the appraisal of the fixed assets the depreciation provision had been "calculated on depreciated cost value. Depreciation of \$142,291 per year on appraisal write-up has been charged to appraisal surplus." In this case the appraised values of the fixed assets were recorded in the accounts and reflected in the balance sheet included in the prospectus. If depreciation had been calculated on the basis of these higher recorded values, the net earnings of this company would have been stated as \$90,000 and \$118,000 respectively for the 1952 year and for the six months of 1953 instead of \$232,000 and \$189,000 as set out in the statement of earnings.

In this case the appraisal write-up was recorded as "capital surplus arising through appraisal of capital assets". In the pro forma balance sheet this account stood at some \$2,300,000 compared with \$6,800,000 for fixed assets (including the appraisal write-up). The estimated costs of financing in the amount of \$270,000 were charged against this "capital surplus" account rather than against earned surplus.

Effect of Allowances for Tax Purposes

In recent years many concerns have recorded as the annual charge for depreciation the allowances which are permitted under the tax regulations. While the recording of such amounts in the books may result in the deferment of relatively substantial amounts of tax it creates a problem when a statement of earnings for a prospectus must be prepared at a subsequent date. In one case this situation was handled as shown in the table below:

Years ended December 31	Provision for Depreciation	Income & Excess Profits Taxes (less Refundable Portion)	Net Profits
1943	\$ 470,189	\$ 886,441	\$ 741,406
1944	470,098	1,027,502	850,463
1945	470,011	1,281,481	844,704
1946	508,013	1,554,950	1,288,556
1947	696,385	1,562,263	1,816,536
1948	1,250,000	1,747,032	2,366,520
1949	1,250,000	1,685,112	1,795,337
1950	1,250,000	1,677,952	2,274,864
1951	1,900,000	2,602,904	2,486,068
1952	4,000,000	1,575,000	1,501,193

Note: (2) The total provision of \$4,000,000 for allowable depreciation in respect of 1952 may be considered to exceed the normal amount of depreciation by \$1,700,000 (including approximately \$1,000,000 in respect of facilities under construction) which excess has reduced proportionately the income taxes and the profit for that year.

In another case, however, a footnote to the auditor's report with respect to earnings reads as follows: "The depreciation and income taxes in 1951 and 1952 are on the basis of report to the Board of Public Utilities. Additional depreciation charged, as allowable for income tax purposes, and the resulting tax reductions are not included above. In 1951 additional depreciation of \$598,271 was

charged and income taxes were thereby reduced by \$302,174 and the corresponding amounts in 1952 were \$471,380 and \$220,112." In the 1951 and 1952 published statements these net amounts of \$296,097 and \$251,268 respectively were charged directly to surplus each year. The reported net income for 1951 and for 1952, exclusive of these amounts, was \$934,211 and \$1,033,264.

ERRATUM

After reading the Accounting Research report in the January issue, we believe that our own form of reporting Mr. Deacon's conclusions could well be classified under "What to Avoid". In quoting his remarks on p. 37 we somehow managed to place the prefix "in" before the word "voluntarily" and thus completely reversed his meaning. We hope that the perceptive reader interpreted the misquotation correctly.

Mr. Deacon's conclusions should have read as follows:

The higher marks, the judges point out, go to the companies which give additional information *voluntarily* to enable shareholders to obtain a real grasp of the operation for the year and the future prospects.

The standard is improving. Many of the reports, including several which did not receive awards, are excellent.

The Students' Department

J. E. Smyth, C.A., Editor

Does the Double Entry System Measure Income in Terms of Changes in Assets?

It is easy enough to see from a *single entry* illustration that the basis for measuring income is a comparison of the dollar amount of assets at the beginning and end of the period. It is not so easy to see this proposition within the framework of the *double entry* system. When we try to think the thing through in terms of debits and credits, we are likely to have trouble seeing the wood for the trees.

We tend to think of the double entry system as measuring income by bringing revenues and expenses together in profit and loss account. It can be argued, however, that the same entries which record the revenues and expenses also record changes in assets. Let us see how this theory works in practice by taking some examples. We may first consider the recording of revenue:

Dr. Accounts receivable
Cr. Sales revenue.

By this entry we record both an increase in an asset and an increase in revenue. (We are in fact classifying an inflow of assets as revenue.)

If we can next show how every entry recording expenses records a *decrease* in assets, we will have shown how the

double entry system records a change in assets as a part of the same process by which it measures income (income being the difference between revenues and expenses).

But the proposition that the double entry system records a decrease in assets at the same time it records expenses requires careful explaining. To begin with, we must consider all costs as representing assets at first, becoming expenses only as they expire in the process of obtaining revenue.

It may be a bit difficult to think of some costs as initially representing assets because in practice a number of costs (in particular, selling, administrative, and financial costs) are charged directly to what we think of as "expense" accounts. But this is merely a bookkeeping expedient. The continuous transition of costs from the status of asset to the status of expense (as sales are made) cannot be recorded by the bookkeeper. Accordingly he generally records an expense all at once, either at the time the cost is incurred, or in retrospect at the end of the year. In theory (whatever the practice may be) all merchandise and services purchased by a business are assets of the

business until they are sold to customers. Thus the entry,

Dr. Merchandise purchases

Cr. Accounts payable

records the acquisition of an asset, merchandise. Similarly the entries,

Dr. Salaries

Cr. Payroll payable

and

Dr. Advertising

Cr. Accounts payable

record the purchase of the services of employees and of an advertising agency or newspaper. By this reasoning the debits in the two entries above record increases in assets (services acquired by the business).

In one sense a business is merely an intermediary for the purpose of passing on goods and services from the suppliers of those goods and services to the ultimate consumer. While we have no means of knowing exactly, it is probably true that most of the selling, administrative, and financial services purchased by a business are "sold" to customers shortly after they are acquired. The extent to which goods and services are sold need not, however, be recorded until the end of the year, when we have the benefit of hindsight, viz.,

Dr. Profit and loss

Cr. Merchandise purchases

Cr. Salaries

Cr. Advertising.

We may think of the credits in this journal entry as recording in retrospect, at the end of the year, a reduction in assets (goods and services purchased) which has taken place during the year. We may also think of the debit to Profit and loss as recording the total expenses represented by the outflow (sale) of such assets. By this reasoning we record a reduction in assets when we record an expense.

The same reasoning holds for the year

end entry to record depreciation expense,

Dr. Profit and loss

Cr. Allowance for depreciation of building.

Here the debit records an expense while at the same time the credit records a decrease in an asset — the cost of the building. (How many people think of the bookkeeping entry to record depreciation as somehow "providing" assets instead of recording a reduction in assets!)

To sum up: the double entry system records an increase in an asset when it records revenue. It also records a decrease in an asset when it records an expense. Since income is the difference between revenues and expenses, the double entry system records changes in assets by the same process by which it measures income.

. . .

It is fair to say that there are some changes in the total assets of a business that are not relevant to the measurement of income. The borrowing of money, the repayment of money borrowed, the purchase of assets on credit, the payment of creditors, the issue of share capital, the reduction of share capital, and the payment of dividends are cases in point. The double entry system solves the problem by using accounts other than revenue and expense accounts to record such inflows and outflows of assets as do not enter into the measurement of income. In other words, accounts such as Bank loan, Accounts payable, Share capital, and Earned surplus are also available to record changes in the total assets.

. . .

The "philosophy" of the preceding discussion suggests definitions for the accounting concepts of *revenue*, *expense*, and *income*. These are:

Revenue is the measure of the inflow

of assets, in the form of money or accounts receivable, in return for goods sold and services rendered.

An *expense* is the measure of the outflow of assets, in the form of goods and ser-

vices previously purchased, associated with the realization of revenue.

Income (profit or loss) is the measure of the net change in total assets resulting from exchanges of assets with outsiders.

SOLUTION TO THE JANUARY PUZZLE

The factors of 133 are 7 and 19. Mary assumed that the money must be divided in the ratio 1:2:4, which gives her \$19, as she said.

But it also could be divided in the ratio 4:6:9.

If this is done, Mary gets \$28.

PUZZLE

Three hockey teams — the Bears, the Lions, and the Tigers — formed themselves into a league. Each team played two matches against each of the others.

No two matches produced the same result, eleven goals in all being scored.

The Bears scored four goals in all, but did not lose any of their matches. The Lions, owing to poor shooting, did not score a single goal.

Complete the League Table below, assigning two points to a win and one point to a draw.

Team	Played	Won	Tied	Lost	Goals		Points
					For	Against	
Bears	4			0	4		
Tigers	4						
Lions	4	0			0		

(Adapted from a puzzle contributed by a reader in Vancouver, B.C.)

Editor's note: We are running out of suitable puzzles for The Students' Department. Contributions will be welcome.

HOW TO FAIL A COURSE

(Adapted from an article in *The Queen's Journal*, 8 Dec. 1953
entitled *Psychology by Protho and Teska*)

1. Start the course as late as possible. By not being sure whether you want to take the course, you should be able to avoid having to do any work on it until the second or third week.
2. Do not bother with a text book.
3. Put your social life ahead of everything else. If necessary, cultivate a few friendships among your fellow students.
4. Make yourself comfortable when you study. If possible, draw up an easy chair by a window.
5. Have a few friends handy during your study periods, so that you can chat when the work becomes dull.
6. If you must study, try to lump it all together and get it over with. The most suitable time would be the last week of the course.
7. Keep your study table interesting. Place photographs, magazines, goldfish bowls, games and other recreational devices all around you while studying.

8. Ignore dictionaries. You could never learn all the words in one anyway.
9. Never interrupt your reading by checking on what you have learned. Recitation is not very pleasant anyhow, since it shows up your deficiencies.
10. Remind yourself frequently how dull the course is. Never lose sight of the fact that you really wanted to sign up for something else.
11. Review only the night before examination, and confine your efforts to trying to guess what the examiner will ask.
12. Find out well in advance exactly when the examinations will be over so that you can plan to forget everything about the course at that moment.
13. Stay up all night before important examinations. You can spend the first half of the evening discussing your determination to "cram" and the latter half drinking coffee.
14. Write your examination paper rapidly. Glance at the question and then put down your first impression.
15. When working at the client's office, forget the facts learned in the course. Do not let academic work get mixed up with your daily life.
16. When you have several things to study, always undertake the longest and most difficult assignment first. Then you may soon get discouraged and not have to do much work that evening.
17. Remember that success in life is your main aim and never let extraneous matters, such as grades, interfere with this objective.

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner, but rather to provide such discussion and explanation of the problems as will make their study beneficial. The editor will welcome discussion of the solutions published.

PROBLEM 1

Final Examination, October 1952 *Accounting III, Question 4 (20 marks)*

The capital and surplus section of the balance sheet of the E Co. Ltd. as at 31 Aug 1952 is as follows:

Capital

Preferred—authorized, 7,000 shares 7% cumulative redeemable at 105, par value of \$100 per share	<u>\$700,000</u>
Issued and fully paid, 2,000 shares	\$200,000
Premium on preferred shares	3,000
Common—authorized 60,000 no par value common shares	
Issued and fully paid 30,000 shares	300,000
	<u>\$503,000</u>
Surplus	
Accumulated earnings	480,000
	<u>\$983,000</u>

The management estimate that if they can secure an additional \$600,000 for plant and working capital, annual earnings before taxes and interest can be increased from an average of \$150,000 per year to \$265,000.

On discussing the matter with an investment banker it appears that one of the three following alternatives could be undertaken:

(a) Redeem present preferred shares.

Issue 5,000 new 6% cumulative redeemable preferred shares at par of \$100 per share.

Issue the required additional common shares at \$18 per share.

(b) Offer rights to common shareholders to subscribe for 1 share of 7% preferred at \$102 and 8 no par value common shares at \$14.75 each for each 10 common shares now held by them.

(c) Redeem present preferred shares.

Issue \$400,000 first mortgage $5\frac{1}{2}\%$ 25 year bonds at 98, repayable at par at maturity.

Issue the required additional common shares at \$18 per share.

Expenses of the issues are to be taken at \$50,000. •

No fractions of shares can be issued.

Taxes on income are to be taken at 50%.

Dividends on the common shares for the past few years have been at the rate of \$1 per share. It is proposed that future common dividends be at \$1.10 per share.

The management are going to submit the proposals to the common shareholders for approval. A committee of the common shareholders have asked CA to prepare a letter indicating, on the basis of the foregoing, the course of action that would be in their best interests.

Required:

The letter that CA would prepare in accordance with the request, and any statements which he would submit to support his opinion as to the course of action which would be in the best interests of the common shareholders.

A SOLUTION

To the Committee of the Common Shareholders,
A Co. Ltd.
Gentlemen:

At the request of the management we submit herewith our opinion of the relative merits of the three plans of re-financing as outlined in the attached schedule and referred to as plans (a), (b), and (c).

The following table indicates the important features of each plan after giving effect to the expected earnings of \$265,000, before taxes and interest, which, in the opinion of the management, will be realized as a result of the additional \$600,000 working capital to be made available. Common share dividends are shown at \$1.10 per share as compared with the previous rate of \$1.00 per share because we understand this dividend policy will be adopted in view of the expected earnings mentioned above.

E CO. LTD.
COMPARISON OF REFINANCING PLANS

	Number of shares o/s		Net profit available for Common	Common Dividend \$1.10/sh.	Net profit after divi- dends	Earnings per Common share Before div's	Book value per Share
	Preferred	Common	Common				
Before							
Financing:	2,000 7%	30,000	\$61,000	\$30,000*	\$31,000	\$2.03	\$25.77
Plan (a)	5,000 6%	50,000	102,500	55,000	47,500	2.05	21.66
Plan (b)	5,000 7%	54,000	97,500	59,400	38,100	1.81	19.78
Plan (c)	nil	56,000	121,180	61,600	59,580	2.16	21.27

* at present rate of \$1.00 per share

Under the existing tax rates of 50%, plans (a) and (c) each result in approximately an equal equity per share, and plan (c) results in higher earnings per common share before dividends. It will be noted also that under plan (c) larger profits are available after all dividends for the operations and future expansion of the company and to provide for the redemption of the bonds.

In view of the foregoing, in our opinion plan (c), as outlined, would be in the best interests of the common shareholders and the company.

Yours very truly,
C.A.

E CO. LTD.
CALCULATION OF EARNINGS PER COMMON SHARE AND BOOK VALUE
PER COMMON SHARE

Under the Various Refinancing Plans

Before refinancing:

Net profit	\$150,000	
Taxes on income	75,000	\$75,000
Required for preferred dividends		14,000
Earnings available to common		61,000
Number of shares outstanding, 30,000		
Earnings per share	$\left(\frac{\$61,000}{30,000} \right)$	\$2.03
Capital and surplus		\$983,000
Equity of preferred		210,000
Equity of common		\$773,000
Book value per share	$\left(\frac{\$773,000}{30,000} \right)$	\$25.77

Plan (a)

Net profit	\$265,000	
Taxes on income	132,500	132,500

Required for preferred dividends		30,000
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Earnings available to common	-	\$102,500
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Funds made available by new preferred \$500,000

Required to redeem existing

preferred \$210,000

Expenses of issue	50,000	260,000
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Net proceeds		240,000
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Required from issue of common		360,000
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Funds to be raised		\$600,000
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Number of common shares to be

issued @ \$18.00

20,000

Number previously outstanding		30,000
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Common shares outstanding		50,000 shares
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Earnings per share	$\left(\frac{\$102,500}{50,000} \right)$	\$2.05
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Capital and surplus		\$983,000
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Net increase after refinancing		600,000
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Equity of preferred		1,583,000
		500,000

Equity of common		1,083,000
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Book value per share	$\left(\frac{\$1,083,000}{50,000} \right)$	\$21.66
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Plan (b). Assuming all rights are taken up

Number of shares issued,

preferred 3,000—previously o/s, 2,000—total o/s 5,000 shares

common 24,000 " " 30,000 " 54,000 shares

Net profit after taxes		\$132,500
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Required for preferred dividends		35,000
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Earnings available for common		\$ 97,500
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Earnings per share	$\left(\frac{\$97,500}{54,000} \right)$	\$1.81
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Capital and Surplus	\$983,000
Proceeds from sale of 3,000 units	\$660,000
Expenses of issue	50,000
	<u>610,000</u>
	1,593,000
Equity of preferred	<u>525,000</u>
Equity of common	<u>\$1,068,000</u>

Book value per share $\left(\frac{\$1,068,000}{54,000} \right)$ \$19.78

Note: If it is assumed that only enough units are sold to provide the required \$600,000 (2,955 units) earnings per share would be \$1.82.

Plan (c)

Proceeds from sale of bonds	\$392,000
Required to redeem preferred	\$210,000
Expenses of issue	50,000
	<u>260,000</u>
Net proceeds	132,000
Required from issue of common	<u>468,000</u>
Funds required	<u>\$600,000</u>
Number of common shares to be issued @ \$18.00	26,000
Common shares previously outstanding	<u>30,000</u>
Total common shares outstanding	<u>56,000</u>
Net profit before taxes and interest	\$265,000
Deduct bond interest	22,000
	<u>\$243,000</u>
Taxes on income	121,500
	<u>121,500</u>
Amortization of bond discount	320
Earnings available for common	<u>\$121,180</u>

Earnings per share $\left(\frac{\$121,180}{56,000} \right)$ \$ 2.16

Capital and surplus — common	\$783,000
Proceeds from common, less expenses of issue	408,000
	<u>\$1,191,000</u>

Book value per share $\left(\frac{\$1,191,000}{56,000} \right)$ \$21.27

Note: Book values per common share might have been calculated after one year of operation, in which case they would be:

Before refinancing	\$26.70*
Plan (a)	22.61
Plan (b)	20.48
Plan (c)	22.33

* taking dividend at \$1.10

PROBLEM 2

Final Examinations, October 1952

Accounting III, Question 5 (20 marks)

The attached columnar working sheet sets out the trial balances, as at 31 Aug 1952, of the H Co. Ltd. and its subsidiaries, the F Co. Ltd. and the G Co. Ltd.

On 1 Sept 1950 the H Co. Ltd. acquired 9,000 shares of the F Co. Ltd. for \$540,000 and 16,000 shares of the G Co. Ltd. for \$1,200,000 and on 31 Aug 1951 it acquired an additional 1,000 shares of the G Co. Ltd. for \$80,000.

Set out below are the summarized balance sheets of the F Co. Ltd. and the G Co. Ltd. as at 31 Aug 1950 and 1951:

	1950		1951	
	F Co. Ltd.	G Co. Ltd.	F Co. Ltd.	G Co. Ltd.
Current assets	\$390,000	\$1,180,000	\$ 473,250	\$1,144,500
Bonds of F Co. Ltd.				200,000
Fixed assets	460,000	140,000	752,500	105,000
Discount on bonds			14,250	
	<u>\$850,000</u>	<u>\$1,320,000</u>	<u>\$1,240,000</u>	<u>\$1,449,500</u>
Current liabilities	\$150,000	\$ 320,000	\$ 190,000	\$ 350,000
Bonds payable			300,000	
Discount on bonds purchased .				9,500
Capital:				
Common—10,000 shares	500,000		500,000	
" —20,000 shares		400,000		400,000
Surplus	200,000	600,000	250,000	690,000
	<u>\$850,000</u>	<u>\$1,320,000</u>	<u>\$1,240,000</u>	<u>\$1,449,500</u>

On 1 Sept 1950 the F Co. Ltd. issued \$300,000 twenty-year 5% first mortgage bonds at 95. \$200,000 of these were purchased by the G Co. Ltd.

On 1 Sept 1951 the G Co. Ltd. issued 5,000 shares to the public at \$60 per share.

During the 1951-52 year the F Co. Ltd. paid dividends totalling \$75,000 and the G Co. Ltd. paid dividends totalling \$187,500. In addition the G Co. Ltd. declared an extra dividend of \$2 per share on 30 Aug 1952.

Depreciation is calculated by the companies on the opening balances in the asset accounts each year. The F Co. Ltd. and the G Co. Ltd. provide 10% on machinery and equipment.

On 31 Aug 1951 the G Co. Ltd. resold, at 125% of its cost, machinery to the F Co. Ltd. for which it billed the F Co. Ltd. \$100,000.

During 1951-52 the following inter-company sales of merchandise were made:

	Selling Price	Gross Profit on sale	On hand at 31st Aug 1952
F Co. Ltd. to H Co. Ltd.	\$300,000	\$ 50,000	\$ 36,000

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F Co. Ltd. to G Co. Ltd.	420,000	84,000	100,000
H Co. Ltd. to G Co. Ltd.	150,000	37,500	50,000

As at 31 Aug 1952 the following inter-company accounts receivable and payable were outstanding:

Due by F Co. Ltd. to G Co. Ltd. re machinery	\$40,000
Due by H Co. Ltd. to F Co. Ltd. re merchandise	20,000
Due by G Co. Ltd. to H Co. Ltd. re merchandise	25,000
Due by G Co. Ltd. to F Co. Ltd. re merchandise	80,000

Required:

Submitting your answer on the attached columnar sheet, prepare working sheets for the consolidated balance sheet and profit and loss statement of the H Co. Ltd. and its subsidiaries.

Note: The following trial balances were printed on the "attached columnar sheet" referred to in the problem:

H CO. LTD. AND SUBSIDIARIES F CO. LTD. AND G CO. LTD.

CONSOLIDATED TRIAL BALANCE as at 31 Aug 1952

Debits	H Co. Ltd.	F Co. Ltd.	G Co. Ltd.
Cash	\$ 90,000	\$ 86,500	\$ 180,000
Accounts receivable	175,000	230,000	395,000
Inventories	285,000	350,000	580,000
Investment in F Co. Ltd. shares	540,000		
Investment in G Co. Ltd. shares	1,280,000		
Bonds of F Co. Ltd.			200,000
Land	60,000	25,000	100,000
Buildings	400,000	450,000	500,000
Machinery and equipment	840,000	650,000	450,000
Unamortized discount on bonds		13,500	
Cost of goods sold	4,145,000	2,807,500	3,930,000
Selling and admin. expenses	562,500	284,250	418,500
Depreciation	68,500	87,500	35,000
Taxes on income	150,000	145,000	287,000
Interest expense	29,000	15,750	
	<u>\$8,625,000</u>	<u>\$5,145,000</u>	<u>\$7,075,500</u>
Credits			
Accounts payable	\$ 424,000	\$ 210,000	\$ 413,500
Bank loan	550,000		
Dividends payable			50,000
Unamortized discount on bonds			9,000
Bonds payable		300,000	
Accumulated dep'n.—bldgs.	234,000	155,000	280,000
—mach.	422,000	305,000	200,000
Sales	5,120,000	3,500,000	4,960,000
Interest income			10,500
Dividends received	195,000		
Common shares	1,000,000	500,000	700,000
Surplus	680,000	175,000	452,500
	<u>\$8,625,000</u>	<u>\$5,145,000</u>	<u>\$7,075,500</u>

SOLUTION ON PAGE 115

Editor's Note

The following working papers, while not required by the problem, are presented below as a means of explaining the calculations made in the above solution.

H Co. Ltd. and Subsidiaries F Co. Ltd. and G Co. Ltd.

MEMORANDUM JOURNAL ENTRIES FOR ELIMINATIONS

	Dr.	Cr.
(a) Capital F Co. Ltd. (90% of 500,000)	450,000	
Surplus F Co. Ltd. (90% of 200,000)	180,000	
Investment in F Co. Ltd. shares		540,000
Purchase discrepancy		90,000
To eliminate 90% interest in F Co. Ltd. acquired 1 Sep 1950		
(b) Capital G Co. Ltd.	340,000	
Surplus G Co. Ltd.	514,500	
Purchase discrepancy	425,500	
Investment in G Co. Ltd. shares		1,280,000
To eliminate inter-company investment as follows:		
Capital —		
Interest acquired 1 Sep 1950		
16/20 of 400,000	320,000	
Interest acquired 31 Aug 1951		
1/20 of 400,000	20,000	
	340,000	
Surplus—		
Interest acquired 1 Sep 1950		
16/20 of 600,000	480,000	
Interest acquired 31 Aug 1951		
1/20 of 690,000	34,500	
	514,500	
(c) Bonds payable F Co. Ltd.	200,000	
Bonds of F Co. Ltd.		200,000
To eliminate inter-company investment in bonds		
(d) Discount on bonds purchased	9,000	
Unamortized discount on bonds		9,000
To eliminate unamortized discount on bonds of F Co. Ltd. held by G Co. Ltd. as of 31 Aug 1952		
(e) Interest income G Co. Ltd.	10,500	
Interest expense F Co. Ltd.		10,500
Interest on bonds of F Co. Ltd. held by G Co. Ltd. for year ended 31 Aug 1952		

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A SOLUTION TO FINAL ACCOUNTS

WORK SHEET FOR CONSOLIDATED BALANCE SHEET AS AT 31 AUG 1952

	Consolidated Trial Balance as at 31 Aug 1952	H Co. Ltd.	F Co. Ltd.	G Co. Ltd.
Debits				
Cash		90,000	86,500	180,000
Accounts receivable		175,000	230,000	395,000
Inventories		285,000	350,000	580,000
Investment in F Co. Ltd. shares		540,000		
Investment in G Co. Ltd. shares		1,280,000		
Bonds of F Co. Ltd.				200,000
Land		60,000	25,000	100,000
Buildings		400,000	450,000	500,000
Machinery and equipment		840,000	650,000	450,000
Unamortized discount on bonds			13,500	
Cost of goods sold		4,145,000	2,807,500	3,930,000
Selling and administrative expenses		562,500	284,250	418,500
Depreciation		68,500	87,500	35,000
Taxes on income		150,000	145,000	287,000
Interest expense		29,000	15,750	
Purchase discrepancy				
		8,625,000	5,145,000	7,075,500
Credits				
Accounts payable		424,000	210,000	413,500
Bank loan		550,000		
Dividend payable				50,000
Unamortized discount on bonds				9,000
Bonds payable			300,000	
Accumulated depreciation — buildings		234,000	155,000	280,000
— machinery		422,000	305,000	200,000
Sales		5,120,000	3,500,000	4,960,000
Interest income				10,500
Dividends received		195,000		
Common shares — H Co. Ltd.		1,000,000		
— F Co. Ltd.			500,000	
— G Co. Ltd.				700,000
Surplus — H Co. Ltd.		680,000		
— F Co. Ltd.			175,000	
— G Co. Ltd.				452,500
		8,625,000	5,145,000	7,075,500

Minority interest in F Co. Ltd.

Minority interest in G Co. Ltd.

Reserve for inter-company profit on fixed assets

Minority interest in profit

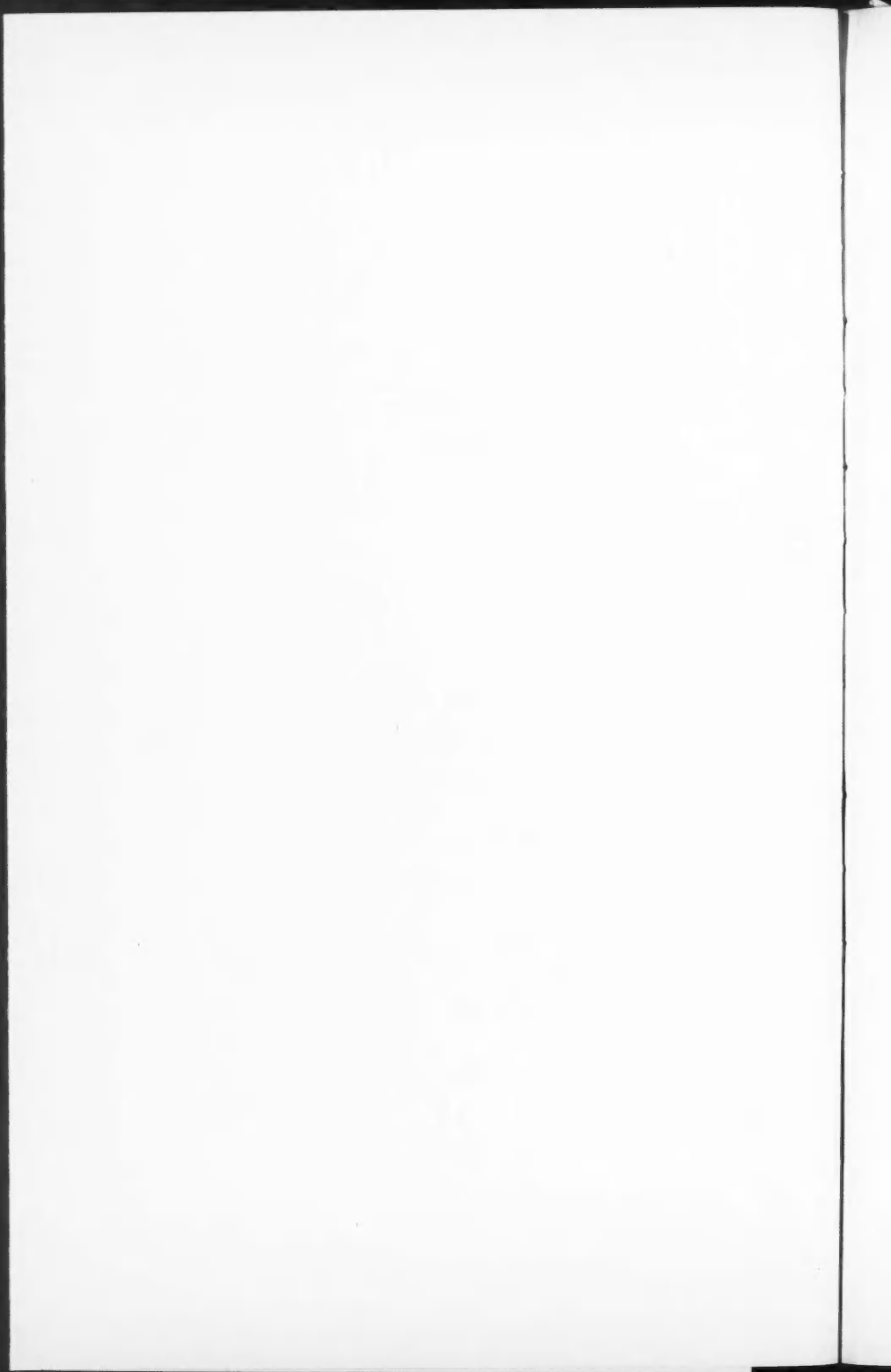
Consolidated profit for year

ACCOUNTING III, QUESTION 5 (20 MARKS)

52 AND FOR CONSOLIDATED INCOME STATEMENT FOR YEAR THEN ENDED

d.	Eliminations		Consolidated Profit and Loss		Consolidated Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
					356,500	
		(l) 165,000			635,000	
		(k) 35,900			1,179,100	
		(a) 540,000			—	
		(b) 1,280,000			—	
		(c) 200,000			—	
					185,000	
					1,350,000	
					1,940,000	
					4,500	
		(d) 9,000				
(k) 35,900		(j) 870,000	10,048,400			
			1,265,250			
		(i) 1,700	189,300			
			582,000			
		(e) 10,500	34,250			
(b) 425,500		(a) 90,000				
		(f) 18,700			316,800	
(l) 165,000						882,500
						550,000
(h) 34,000						16,000
(d) 9,000						
(c) 200,000						100,000
						669,000
						927,000
(j) 870,000				12,710,000		
(e) 10,500						
(g) 195,000						
						1,000,000
{ (a) 450,000						
{ (m) 50,000						
{ (b) 340,000						
{ (f) 136,000						
{ (n) 224,000						
{ (a) 180,000						
{ (m) 17,500	(g) 67,500					780,000
{ (b) 514,500	(f) 117,300					
{ (i) 17,000	(g) 127,500					
{ (n) 144,800	(h) 34,000					
	(m) 67,500					
	(o) 16,000					83,500
	(n) 368,800					
	(o) 96,000					464,800
	(i) 15,300					15,300
(o) 112,000			112,000			
			12,231,200	12,710,000		
			478,800			478,800
4,130,700	4,130,700	12,710,000	12,710,000	5,966,900	5,966,900	





	Dr.	Cr.
(f) Capital G Co. Ltd.	136,000	
Purchase discrepancy		18,700
Surplus G Co. Ltd.		117,300
Adjustment of purchase discrepancy upon issue by G Co. Ltd. of 5,000 shares @ 60, 1 Sep 1951, calcu- lated as follows:		
Capital:		
17/25 of 700,000	476,000	
17/20 of 400,000	340,000	
	<u>136,000</u>	
Surplus		
17/20 of 690,000	586,500	
17/25 of 690,000	469,200	
	<u>117,300</u>	
(g) Dividends received H Co. Ltd.	195,000	
Surplus F Co. Ltd. (90% of 75,000)		67,500
Surplus G Co. Ltd. (68% of 187,500)		127,500
To eliminate inter-company dividends		
(h) Dividends payable G Co. Ltd.	34,000	
Surplus G Co. Ltd.		34,000
To eliminate portion of extra dividend of \$2 a share declared by G Co. Ltd. 31 Aug 1952 applicable to shares held by H Co. Ltd. (17/25 of 50,000)		
(i) Surplus G Co. Ltd. (85% of 20,000)	17,000	
Depreciation expense (10% of 17,000)		1,700
Reserve for inter-company profit on fixed assets		15,300
To eliminate parent's portion of profit made by G Co. Ltd. on sale of fixed assets to F Co. Ltd. on 31 Aug 1951 (25% of 80,000 = 20,000)		
(j) Sales	870,000	
Cost of goods sold		870,000
To eliminate inter-company sales		
(k) Cost of goods sold	35,900	
Inventories		35,900
To eliminate inter-company profit in closing inventories, as follows:		
90% of (50/300 x 36,000)	5,400	
90% of (84/420 x 100,000)	18,000	
100% of (375/1500 x 50,000)	12,500	
	<u>35,900</u>	

(N.B. The above calculation assumes that the portion of inventories on hand at 31 Aug 1952 attributable to inter-company purchases is stated in the problem at selling price.)

(l) Accounts payable	165,000	
Accounts receivable		165,000
To eliminate inter-company accounts		
(m) Share capital F Co. Ltd. (10% of 500,000)	50,000	
Surplus F Co. Ltd. (10% of 175,000)	17,500	
Minority interest in F Co. Ltd.		67,500
To set up minority interest except for profit for current year. Surplus above is as of 31 Aug 1951 less dividends 1951-52.		
(n) Share capital G Co. Ltd. (32% of 700,000)	224,000	
Surplus G Co. Ltd. (32% of 452,500)	144,800	
Minority interest in G Co. Ltd.		368,800
To set up minority interest except for profit for current year. Surplus above is as of 31 Aug 1951 dividends 1951-52.		
(o) Minority interest in profit	112,000	
Minority interest in F Co. Ltd.		16,000
Minority interest in G Co. Ltd.		96,000
Minority interest in profit for year ended 31 Aug 1952 calculated as follows:		

	F Co. Ltd.	G Co. Ltd.
Sales	3,500,000	4,960,000
Interest income		10,500
	<u>3,500,000</u>	<u>4,970,500</u>
Cost of goods sold	2,807,500	3,930,000
Selling and administrative expenses	284,250	418,500
Depreciation	87,500	35,000
Taxes on income	145,000	287,000
Interest expense	15,750	
	<u>3,340,000</u>	<u>4,670,500</u>
Profit per books	160,000	300,000
Minority interest %	10%	32%
Minority interest in profit	<u>16,000</u>	<u>96,000</u>

THE TAX REVIEW

Melville Pierce, B.A., LL.B., Editor

[1954]

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Part I

DEPRECIATION ALLOWANCES UNDER THE CANADIAN INCOME TAX

By J. Harvey Perry

Director of Research, The Canadian Tax Foundation

FEW aspects of income tax have undergone as frequent and as fundamental changes in the thirty-six years of the Dominion levy as the allowance for depreciation. These changes have been of major concern to both the businessman

and the accountant because of the importance of the allowance in the income computation. In this article the main trends of development in this crucial area are traced from 1917 to the present day.

NORMAL DEPRECIATION UNDER THE INCOME WAR TAX ACT

The Act of 1917 made provision for a depreciation allowance in positive terms, although the amount was subject to the exercise of ministerial approval. The exact provision was for "such reasonable allowance as may be allowed by the Minister for depreciation . . ." (s. 3(1) (a)). This was amended, in 1919, to introduce ministerial discretion, the new allowance being for "such reasonable amount as the Minister, in his discretion, may allow for depreciation . . ." The term depreciation was not defined, but was interpreted to mean an allowance for writing off wear and tear of fixed

assets — plant, building, and machinery — used in the taxpayer's business. The allowance granted was broader than in England, where no deduction was permitted for certain non-industrial assets, such as hotels, theatres, and so on.

Throughout the whole of the term of the IWTA (i.e. until 1949), no official rates of depreciation were ever published. The policy was that the taxpayer could best judge the rate of write-off appropriate to his own assets, and if the Minister disagreed he would exercise his discretion to reduce the deduction. In time however the pooled experience of

Articles and cases in *The Tax Review* are cited by reference to the year and Part in which the case or article appears. Two Parts will be published each year: Part I comprises the issues of *The Canadian Chartered Accountant* from January to June, and Part II the issues from July to December.

taxpayers resulted in the collection and circulation of rates for specific assets which were known to be acceptable to the administration. These were straight-line rates applicable to cost, which on the whole were fairly generous. Machinery was allowed an annual rate of 10%; buildings of frame 5%, of brick 2½% and of reinforced concrete 2%; motor cars during the twenties were allowed 25% for the first year and 20% thereafter up to 85%, and as experience developed other rates were provided for motor vehicles under various conditions of operation. No allowance for obsolescence or for loss by fire or other act of God was made under the IWTA, and any element of excess depreciation inherent in the rates allowed under it was probably justifiable as a recognition of that fact. In addition to the depreciation allowances all reasonable expenses for maintenance and repair of fixed assets were deductible as current costs.

Additional Features

There were certain additional features of this system which should be mentioned. Whether these were all in effect from 1917 is impossible to say now, but they were part of it when the system described above was replaced in 1949.

1. Once the taxpayer had established a rate of depreciation he was not allowed to increase it even though it was less than the maximum generally recognized by the administration. The pressure for such increases became strong under the high tax rates of the Second World War, but was not recognized by the administration unless other factors were present which would justify a higher rate.

2. In any year, including a loss year, the taxpayer was required to take not less than 50% of his normal rate of depreciation and he was not allowed to take the postponed depreciation until the end of the period of write-off for the asset.

3. A rule-of-thumb recognition of accel-

ated use was given through the privilege of increasing the normal rate of depreciation by 50% where a machine was being operated for twice its normal operating time, and by 100 per cent where the rate of operation was at least three times the normal time. Any machine for which special depreciation had been granted by the War Contracts Depreciation Board during the war was not eligible for this concession.

4. Under normal circumstances however no more than one year's write-off would be allowed against one year's taxable income, no matter what allowance the taxpayer had taken in his own accounts.

5. A corollary of the above rule was that the taxpayer was allowed to take no more on his tax return than the allowance taken in his own books, and his own accounts were required to show a consistent accumulation of a depreciation reserve or else a consistent write-off of the book-value of the asset.

6. An allowance was granted for an asset only during the period in which it was in use. Once sold or scrapped no further deduction could be taken for obsolescence or undepreciated cost. Similarly an asset acquired during a tax year would only qualify for a partial write-off in respect of that year.

7. A so-called "80% rule" was applied in certain cases. Some taxpayers were allowed, in lieu of taking a deduction for each individual asset at an appropriate rate, to apply a single rate to the whole of the balance in the depreciable asset account. However when 80% of the original cost of the assets had been written off in this manner the taxpayer was required to reduce the cost of such assets by the depreciation reserve and thenceforth apply the rate only to the remaining 20% rather than to the full original cost. The apparent purpose of this rule was to prevent taxpayers from being able to write off an abnormal amount of depreciation each year as new assets were added to the account.

Non-Arm's Length Dealings

The original Act contained no restric-

tion on the sale of written-down assets between related taxpayers, but the Minister undoubtedly exercised his discretionary power to disallow further depreciation where he recognized a non-arm's length transaction which gave rise to an artificial situation. However his power to use his discretion in this manner was overruled by the decision of the Privy Council in the *Pioneer Laundry* case in 1939. Following this decision the IWTA was amended in 1940 by transferring the depreciation allowance

from the section of the Act which provided in positive terms for a deduction to the section which contained the deductions which might not be taken. Depreciation was denied except for such allowance as the Minister might grant in his discretion. In practice no change in administration took place, but the power of the authorities to deny depreciation for artificial transactions between related taxpayers was undoubtedly strengthened by this amendment.

SPECIAL DEPRECIATION UNDER THE INCOME WAR TAX ACT

The use of the depreciation allowance for defence expansion and for general economic purposes was largely developed during and after the second war. However a brief experiment with the income tax as a means of stimulating capital investment was made late in the depression and is worth recording.

Tax Credit for Capital Expansion — 1939-40

This experiment took the form of a tax credit rather than the more familiar recent device of an adjustment of the depreciation allowance. The measure was announced in the budget speech of April 25, 1939, and as enacted by an amendment to the IWTA took the form of a deduction from tax equal to 10% of capital expenditures incurred and paid between May 1, 1939 and April 30,

1940, on projects commenced after May 1, 1939, for the "construction, manufacture, installation, betterment, replacement or extension of buildings, machinery or equipment". The tax credit so earned was to be spread equally over the next three years in which the firm had a taxable income. Where the taxes paid in this period were insufficient to absorb the credit the taxpayer was allowed to apply an unabsorbed amount against the tax due on any taxation year ending on or before April 29, 1946.

The war of course broke out in the middle of the period and as a result the administration of this measure was quickly engulfed in more pressing matters. The provision was not withdrawn, but no information has been published that would provide a basis for measuring its effect.

SPECIAL WARTIME DEPRECIATION

As in all other countries Canada adapted its depreciation provisions to the many exigencies of the wartime period. A variety of purposes were served and several means employed for serving them.

1. War Contracts Depreciation Board Authority was given by an amend-

ment to the Act in 1940 for the granting of "such extra depreciation as the Minister in his discretion may allow in the case of plant and equipment built or acquired to fulfil orders for war purposes". To implement this provision in August, 1940, a special Board was established by order-in-council to certify to

the Minister that special depreciation for "capital expenditures incurred under a war contract" should be granted. It was empowered to grant accelerated depreciation in respect of capital outlays for wartime production which seemed likely to have "no postwar value". No fixed formula was laid down by the Board, but the conditions under which it was to grant certification or alternatively to deny it were set out as follows in the order-in-council:—

2. A certificate of *special depreciation may be*

- (a) given to any company in respect of the cost of self-paid-for capital depreciable assets acquired for the production of war materials, excluding assets having a reasonably full postwar use;
- (b) confined to war-time construction or assets acquired specifically for war purposes.

3. A certificate may issue when the terms of the War Contract provide specifically that depreciation is to be secured through the medium of the unit purchase price.

4. A certificate may issue when the War Contract is silent as to the terms of depreciation.

5. A certificate of *special depreciation should not be*

- (a) given when the contractor recovers the cost of capital assets separately and directly as such

- (i) in a lump sum;
- (ii) by instalments;
- (iii) on engineer's progress reports.

(b) given if the capital assets are paid for by the Government under any "cessation of hostilities" clause contained in the contract. The Board shall certify in all such cases the character or nature of the payments made and the extent thereof. If a certificate has already been issued, it should be cancelled.

6. Sub-contractors under principal War Contracts may be dealt with in exactly the same manner as principal contractors holding War Contracts and special depreciation will only be allowed if subcontractors produce evidence satisfactory to the Board and upon which the Board might issue a certificate to the Minister of National Revenue.

The text of the certificate given by the Board also throws some light on the manner in which it gave effect to its terms of reference. The certificate read in part as follows:—

2. Capital assets of a depreciable character were constructed or acquired entirely at the expense of the contractor and

(a) They were necessary for the performance of the said War Contract;

(b) They were not purchased or constructed prior to the commencement of the present war;

(c) It is believed that they will not have a reasonably full post-war business value;

(d) They were erected, installed or purchased to fulfil the terms of the War Contract after the commencement of the present war and have been used therefor to the date hereof;

(e) They cost in cash \$..... of which special depreciation is to be allowed on \$..... thereof.

(f) The respective group-costs and general description by classes or categories of the capital assets paid for and used in fulfilling the terms of the contract have been verified by an affidavit of a duly authorized officer of the contractor.

3. The terms of the said War Contract—

(a) provide specifically for reimbursement of depreciation through the medium of the unit purchase price for the war materials;

(b) are silent as to depreciation being reimbursed through the unit purchase price paid for the war materials;

(c) provide for payment of the said capital assets as such, apart from the unit purchase price paid for the war materials.

(Inapplicable paragraphs to be struck out and initialled)

It is understood that in most cases depreciation was accelerated to periods of from two to five years, depending on the nature of the asset and the duration of the war contract. The operation of the Board was gradually limited in scope as wartime productive facilities became more adequate. Following October 1, 1942.

a Certificate of Necessity had to be procured from the Department of Munitions and Supply before the Board would consider an application, and in December, 1943, the Board was restricted to granting certificates for expenditures for which the applicant could show that he had in fact received the prior approval of the Department of Munitions and Supply before undertaking the investment. By the end of 1944, when its work was almost completed, the Board had granted special depreciation on expenditures of about \$275 million.

It should be mentioned that direct investment in war plant by the Canadian, American and British governments in Canada was of much greater importance than private investment, which accounts for the fact that the total for which accelerated depreciation was granted did not exceed \$275 million.

2. War Exchange Conservation Act

A serious problem of the wartime period was the acute shortage of U.S. funds prior to the Hyde Park agreement. During the first three years of the war serious efforts were made by the Canadian Government to encourage imports from the sterling area, to discourage imports from the United States and, in addition, to stimulate exports to the United States. Accelerated depreciation was the main device used to achieve this last purpose. Under Part III of the War Exchange Conservation Act, 1940, the Minister of Finance was authorized to enter into agreements with companies to allow them a rapid write-off of expenditures on assets that would increase our exports to the United States and which would not otherwise have been undertaken. These expenditures amounted in total to about \$59 million, and the industries affected were mainly mining, lumbering, oil and power. In some cases the concession took the form of a special depletion allowance or a tax credit, depending on

the requirements of the individual circumstance. These agreements, all of which were tabled in Parliament, were negotiated directly between the companies concerned and the Minister of Finance, without the intervention of a special board or other agency. After mid-1943, when the currency problem became less acute, no further agreements were written under this authority.

3. Special Depreciation by Special Agreement

Accelerated depreciation was given under separate agreements, entered into directly between the federal government and the Aluminum Company of Canada, in respect of assets for the expansion of power and production facilities in the amount of about \$180 million.

4. Short Life Equivalent and Tools

A fourth type of concession related to small tools and equipment which would ordinarily be made subject to depreciation but which were allowed to be charged as current expense when used in war production. Some \$500 million of expenditure on tooling up was charged off under this provision.

5. Other Wartime Changes

(a) Special rate for fishing schooners used on the Atlantic coast. For any schooner built on or after January 1, 1943, on the undertaking that the vessel would be used for a period of five years for fishing purposes the taxpayer was allowed to write off the full cost at any time at his option during that period — if he wished, all in one year. Provision was made for the recapture of excess depreciation in the event of a subsequent sale.

(b) A substantial revision in the depreciation allowances granted the important pulp and paper industry was made during the war period. For fiscal years commencing after the end of the 1943 fiscal

year the maximum rate was set at 5% for all companies. Firms taking less were allowed to increase their deduction and those taking more were to come

down to at least this level. Other measures were implemented to revise what had apparently developed into an uneven situation in this major industry.

POSTWAR SPECIAL DEPRECIATION UNDER THE INCOME WAR TAX ACT

Double Depreciation

Extensive use was made of the depreciation allowance in Canada, along with other measures of tax reform, as a means of encouraging capital investment in the postwar period. It could almost be said in fact that economic considerations were the principal factor conditioning both the nature and the extent of the allowance.

The first step in this direction was a measure under which the taxpayer was allowed to take up to double the normal rates on new investment. This plan was first mooted in the budget speech of June 26, 1944, when the Minister of Finance, after explaining the dilemma he faced in wishing to retain high rates of corporation tax for revenue purposes and at the same time to encourage a revival of private investment as the end of the war approached, made the following statement:—

"I am making a recommendation which I think offers a practical way out of this dilemma, maintaining our present revenues and conforming to the principle of restricting taxation, as nearly as possible, to taxation of income. It is that we provide that, in respect of bona fide new investment in depreciable assets carried out after a date to be designated by the governor in council, the taxpayer should be allowed rates of depreciation which may vary at the option of the taxpayer between maximum rates double the present ordinary rates and minimum rates which will be one-half the ordinary rates.

"The significance of this proposal is twofold: first, it will allow the taxpayer to recover a part of his capital whenever earnings are good but will still leave all the in-

come or profit, actually realized from the venture over its whole life, subject to taxation; second, it will allow him, in respect of such new investment carried out at a time when the government has declared the conversion and expansion of industry to be desirable, to transfer some of his income from a period when war-time tax rates may still be in effect to a later period when he may expect normal taxation to be lower. To this extent, it will relieve such investment for post-war purposes from such war-time taxation of business profits as may still be in effect at the time the work of conversion or expansion is carried out. It should be borne in mind that the taxpayer can write off no more than the full value of his new investment and to the extent that he reduces his taxable income in the early years he will increase it in the later years. There is nothing in the proposal which allows income to escape taxation."

Philosophical Basis

This statement has been given at some length, since it sets out the philosophical basis of the approach of the federal government to one of the major elements of the income computation — depreciation — in relation both to economic activity and to tax burden. It promises that depreciation was to be a dynamic element in an aggressive tax policy, rather than simply a means of amortizing the cost of fixed assets, as it is usually regarded in accounting literature. Furthermore it appears to face the problem of the tax advantage arising from accelerated depreciation, which has attracted so much attention in both the United States and England, by recognizing that what is gained by the acceleration will be lost later on by reduced deductions.

This announcement was implemented by an amendment to s. 6 of the IWTA in 1944, which (as amended in 1946) provided for "depreciation at not more than double the rates normally allowed in respect of plant or equipment of such class or classes as may be determined by the Governor in Council, built or acquired in a period to be fixed by the Governor in Council for the purposes of this paragraph, if the taxpayer is, in the opinion of the Minister, making a new investment by building or acquiring the plant or equipment".

Under this provision an order in council was passed, dated November 10, 1944, which first established that the period in which assets eligible for special depreciation might be built or acquired would extend from that date to December 31, 1946. By subsequent orders in council the period was finally extended to March 31, 1949. These orders also established the types of asset for which special depreciation would be allowed and set up a system of certification by the then Department of Reconstruction. In general the assets for which eligibility was granted could be described as *industrial plant and equipment*. The major ineligible classes of asset included office equipment and furnishings, dwelling buildings, including apartment houses, stores, hotels and office buildings, automobiles, trucks and buses, and railway rolling stock. As indicated in the original announcement the taxpayer was allowed any amount of depreciation between a minimum of one-half and a maximum of double the normal rates. The special depreciation was restricted to 80% of the total cost of the asset incurred during the period between November 10, 1944 and March 31, 1949. Normal rates applied on the balance.

Certification System

The system of certification was deemed necessary to assure that eligible assets

were restricted to the prescribed classes, and, at least at the outset, to assure that, "having regard to war or reconstruction needs," it was desirable that the assets be acquired or constructed. Forms for application were issued and after the precise range of assets that would be recognized was clarified by experience the scheme worked fairly smoothly.

In the postwar investment program in Canada this measure was undoubtedly of profound economic significance; an official report contains the statement that about \$1.4 billion of postwar investment was made under its terms. This represented about two-fifths of total *business* investment and about four-fifths of total *manufacturing* investment in the transitional period. A detailed official analysis of the projects approved has been published under the title "Encouragement to Industrial Expansion in Canada; Operation of Special Depreciation Provisions": Department of Reconstruction and Supply, 1948, King's Printer, Ottawa. (This same publication contains as well some analysis of the wartime capital investment program, although this is set out in more detail in "Private and Public Investment in Canada, 1926-1951", Department of Trade and Commerce, Ottawa.)

Other Postwar Special Arrangements

(a) Capital expenditures for research facilities. No allowance had been made at all for research expenditures prior to 1944. As part of a liberalization of the tax laws an allowance was enacted in that year to cover both current and capital outlays in Canada. The capital outlays may be amortized over a three year period. This provision is still in effect.

(b) Special depreciation for ships. In respect of ships acquired from War Assets Corporation or built in a Canadian shipyard in the period from April 1, 1947 to December 31, 1949, depreciation was allowed at any amount between one-

half and double the normal rates. Where the ship was being built the special allowance was restricted to the cost incurred during the period.

(c) Special depreciation for rental housing. Under very closely defined restric-

tions the right to take not less than half and not more than double the normal rate of depreciation was extended to new rental housing accommodation and equipment installed therein in the period March 31, 1948 to December 31, 1949.

STATUTORY PROTECTIONS AGAINST EARLY SALES OF ASSETS ON WHICH SPECIAL DEPRECIATION HAD BEEN GRANTED

As the above measures were introduced into the Income War Tax Act the authorities showed increasing concern that taxpayers not take advantage of the granting of a speedy write-off by artificial transactions with related companies. Various special provisions were introduced on an *ad hoc* basis to overcome this possibility. These in general gave the Minister authority to disallow any further depreciation in the hands of a purchaser having a controlling interest in the vendor or in the case of a sale of an asset, on which special depreciation had been allowed, at a price in excess of its written-

down value the Minister could revise downward the earlier deductions allowed to the taxpayer. In the case of the special wartime depreciation this provision was restricted to sales of *immovable assets* (not including machinery and equipment), while in the case of the postwar double depreciation it applied to any *plant or equipment* for which the double depreciation had been claimed.

These provisions were precursors of the more elaborate scheme of "recapture" introduced under the revised Income Tax Act of 1948, which came into operation in 1949.

DEPRECIATION UNDER THE INCOME TAX ACT THE NEW SYSTEM OF CAPITAL COST ALLOWANCES

As is well known, the whole of the income tax law has been completely overhauled in Canada in the postwar period, and no aspect was more drastically revised than the depreciation system. The purpose of this revision was explained by the Minister of Finance in his budget speech of March 22, 1949, in the following terms:—

"During the past year a great deal of study has been given to our system of allowances for depreciation. The problems in this field are highly technical, and I cannot in this speech enter into much detail regarding changes which are to be made. I shall, however, state briefly what they are,

and a full explanation of them will be given when we are in committee on the budget resolutions.

In the past allowances have been granted on the basis of wear and tear of assets used in earning the income subject to tax. Under the new regulations which my colleague the Minister of National Revenue is proposing, the governing principle will be the amortization of costs of depreciable assets. Incidentally, an effect of this will be to allow for obsolescence hitherto unrecognized under our Act. In the second place the rates of write-off will apply to the written-down value of the asset account rather than to the total asset account. In the technical language of the accountant this means chang-

ing from the straight-line method of depreciation to the diminishing balance principle. Of course the rates of depreciation will be appropriately increased having regard to the diminishing base to which they apply. Thirdly, it is proposed to introduce what might loosely be described as a recapture provision. This provision will operate to ensure in effect that the deductions for amortizing the cost of an asset shall not exceed the final proven cost of the asset to the taxpayer. It will call for an adjustment against future write-offs where assets are disposed of after some use. I might add here that the so-called add-back or adjustment will be limited to the written-down value at the end of 1948 regardless of the price realized on disposal of assets in order that there can be no possible claim that under this provision capital gains are being taxed, or that this recapture provision has any retroactive effect.

I believe that these principles which I have outlined will mean a great improvement over the old system and will be a further step towards greater simplicity in our system of taxing business profits. There should be a real reduction in the accounting work both for business concerns and the tax department as well. The system will likewise be more equitable to the taxpayer and to the treasury. I shall welcome a full discussion of these recommendations."

Main Features of New System

The main features of the new system, which has become known as the "capital cost allowances" system, may be described briefly as follows:—

1. All assets in existence at the commencement of the plan were given an "undepreciated cost" equal to original cost less depreciation taken to the commencement of the 1949 taxation year.
2. The diminishing balance system of depreciation was adopted for all taxpayers except farmers and fishermen, who could remain on straight line if they chose.
3. Some dozen classes of assets were established by regulation, with rates running from 4% to 100%. The rates so established were approximately double the previous

rates. Most machinery, for example, previously granted 10% was raised to 15% or 20%. They determine only the maximum amount that may be taken. The taxpayer may deduct less or none at all if he so wishes.

4. The rates so established apply each year to the balance remaining in each class of asset. The balance is determined by deducting from original cost all allowances previously taken and by adding new acquisitions and deducting recoveries from sales or abandonments. As long as there is any balance left the taxpayer may take a deduction, regardless of whether the assets are still owned by him. However where recoveries from sales exceed the balance remaining in the account the amount of such excess must be taken into income, but only to the extent of the allowances previously taken in respect of the assets sold. The effect of the last provision is to avoid any recapture beyond the original cost. Where a lump sum is required to be taken into income as the result of a recovery following a sale it may be spread back over the income of the five years preceding the year of sale.

An exception is made under this "recovery" procedure in the case where a whole class of assets is disposed of during the year, as may happen with a fleet of automobiles, and substantial new additions are made to the class in the same year. Rather than take into income of one year the amount of the recovery resulting from sales the taxpayer is allowed to offset against the recovery the amount spent on new acquisitions, any net difference being treated either as income of the year or as the new amount of undepreciated capital cost of assets in that class, depending on its nature.

Some fairly detailed provisions have been made for the treatment of recoveries from insurance, for treatment of assets acquired by gift and bequest, and so on, of which space limitation precludes a full description.

5. The requirement that the amount of depreciation taken in the tax return may not exceed the amount shown on the taxpayer's own accounts has been retained un-

der the new system, except that it is now on an accumulative basis.

6. The deduction is now given as a positive allowance, since it appears in the section of the Act which provides for deductions that may be taken, whereas, as explained earlier, it had previously been a concession granted by ministerial discretion under a section which prohibited deductions. The element of ministerial discretion has also been removed in the new law, since the amount that may be taken is to be established by regulation — in effect by order in council.

Along with these new arrangements for what would ordinarily be regarded as depreciation of fixed assets specific provision was also made by regulation for writing off certain other capital expenditures, such as a leasehold interest and a "patent, franchise, concession or licence for a limited period". Natural resources are excepted from these latter provisions. Only in the case of timber limits and certain industrial mineral mines is a "capital cost allowance" granted for the cost of acquiring the resource. In general the *depletion* allowance, which is expressed as a percentage of taxable income, is regarded as providing a recognition of the cost of *acquiring* a natural resource for development. Provision is made, either under the capital cost allowance system or as current expense, for deducting almost all costs of *exploiting* a natural resource.

Statutory Provisions to Prevent Abuse of Sales Between Related Companies

An important aspect of the new Income Tax Act was the introduction of several provisions designed to prevent tax avoidance through inter-company transactions. The most conspicuous of these was undoubtedly the adoption of the test of non-arm's-length relationship, which is applied to various specific types of transaction throughout the law and has ramifications far broader than can be mentioned

here. It has an implication in the present context, however, in that where sales of assets occur between related taxpayers the purchasing taxpayer in effect is restricted to writing off not more than the capital cost of the asset to the previous owner or owners. Of course where the asset has been sold by the original owner or owners at a price in excess of its undepreciated value the recapture provision will have operated to recover excess depreciation taken by them.

Comment

In general the executive side of most businesses has probably welcomed the new plan, since it has the advantage from a management point of view of providing a write-off of from half to three-quarters of the cost of many industrial investments in four or five years. It has been received with some misgivings by accountants, however. The most serious of these arises out of the continued requirement that in effect the tax return control the company accounts. This was less objectionable when the straight line system of write-offs was in use since most taxpayers had adopted that basis in any event. But the diminishing balance plan is not accepted as being appropriate in many cases, and the virtual compulsion to use it for company accounts because it is used under the income tax meets strong objection from most accountants. The retention of an asset in the account for depreciation purposes after it has been sold or scrapped at a loss is also contrary to sound accounting practice.

Other Postwar Developments

Other postwar developments may be divided between (a) general developments relating to the defence program and (b) miscellaneous other measures of interest to specific industries.

(a) Defence Measures

(i) *Accelerated amortization.* As a means of

encouraging investment in facilities for defence production and also in recognition of the shortened life expectancy of such facilities a plan for accelerated write-offs was announced in February, 1951. The scheme is administered by the Department of Defence Production, and any individual asset or project requires the certification of the Department to be eligible. Assets in respect of which certification will be given have been designated by reference to the classes established under the Income Tax Regulations. They include class 1 — bridges, canals, railways, roadways; class 2 — electrical generating and distributing equipment (including plant structures); class 3 — buildings not included in any other class, breakwaters and docks; class 6 — buildings of wood or stucco, fences, storage tanks, railway tank cars; and class 8 — the catch-all class, which includes most types of machinery. For all such assets but those in class 8 the taxpayer may take a rate of 30% per annum in addition to the rate ordinarily applicable, provided that the aggregate of the deductions so taken may not exceed 70% of the cost of the assets certified. For class 8 a lower additional rate of 20% is allowed and the aggregate write-off so taken may not exceed 50% of the certified cost. The certificate designates the year in which the additional allowance may be taken, and it may be deducted in a four year period commencing with that year.

In determining certified cost the Department is understood to take into account potential non-defence value of the asset on termination of the defence contract. Such evidence as is available indicates that in general a low estimate is being placed on such residual value, and that the allowance of accelerated depreciation is being used to some extent to make defence contracts more attractive than would otherwise be the case.

(ii) *Deferred depreciation.* The feature of the recent Canadian period that has undoubtedly attracted most attention is the experiment with the deferment of depreciation on certain assets. This program was first announced in the April 10, 1951 budget speech of the Minister of Finance in the following statement:—

"Steel and related controls will place

considerable restraints on less essential capital expansion, but they will not directly affect certain kinds of investment. In fact they could have the result of intensifying competition for such other materials and labour as are available. To embark upon all-out direct construction control would be an almost impossible task, as the experience of 1944-45 indicated.

"What we need is a stiff financial deterrent that will affect particularly the businessman who is considering the kind of investment which is attractive, not because of its long-term soundness, but because it can be written off out of the expected high profits of the next few years at a time when he expects the rate of corporate income tax to be abnormally high.

"To provide this deterrent it is proposed to defer for a period of four years the right to charge depreciation on all capital assets acquired after April 10, 1951, excepting certain classes of assets defined in the regulations and certain additional kinds of assets when certified as eligible by the Minister of Trade and Commerce.

• • •

"The deterrent will particularly affect the businessman whose decision to make a capital expenditure is strongly influenced by the expectation that he can write off a large fraction of his cost at a time when both profits and tax rates are abnormally high, particularly if it is a kind of investment with uncertain profit-making possibilities six or eight years hence. In other words it will compel the businessman to give primary attention to the long-term prospects of proposed capital expenditures and if outside financial participation is required lenders will also take this view.

"There will, therefore, be a stiff deterrent on projects of uncertain long-run value and also on capital expenditures on frills, gadgets and generally "dressing up" offices stores and buildings. This deterrent should reduce the competitive scramble for scarce materials and equipment and thus place less strain on direct controls. Such materials and equipment will tend to go to those who can make the best long-term use of them. Bidders who are anticipating short-

run quick profits will tend to withdraw from the market. One further advantage is that the government will not be telling anyone that he cannot do this or that. What will happen is that a financial penalty will be put, in the short run, on those who go ahead with less essential expenditures."

Differentiation of Assets

The plan introduced to give effect to this proposal was established with reference to the classes of assets under the Income Tax Regulations. One group of assets was excluded entirely from any restriction; another group was put in the class for which the department would consider applications for removal from the restrictions and the residual group was made up of those assets for which the restrictions would not be lifted.

The principal assets excluded from the scheme entirely were those used in the production and distribution of electricity, gas and water; in the provision of telephone and telegraph service; pipelines, gas and oil-well equipment; lumbering equipment; patents and franchises; residential property, assets used by individuals in farming, fishing and professional services. The principal assets for which the restrictions would be lifted on certification were those acquired to fulfil a defence contract or sub-contract or for purposes contributing to the defence of Canada; for the production and distribution of primary products in the farming, fishing, mining, petroleum, lumber and pulp and paper industries, for direct use in a transportation and communications business, and for enterprises providing a hospital service. In general the group of assets to which it was intended that the restrictions apply without concession were those constructed primarily for retail or wholesale trade, for use as an office or hotel, for commercial or financial service or for renting for other than human habitation.

One aspect of the restrictions against which most protest was raised was that they applied to construction and machinery already in process or contracted for in good faith prior to April 10. Another objection was that they applied to acquisitions of property in existence prior to April 10, in some cases buildings that had been constructed years before, the purchase of which by a business would not place any additional strain on the economy. The difficulties in granting any concessions in a scheme which depended in large measure for its success on influencing business decisions by the prospect of fairly arbitrary and rigid administration explained the absence of immediate concessions, but some relief was introduced when it was felt that the main purpose had been achieved. In June, 1951, inherited properties and properties transferred between related taxpayers were excepted from the restrictions entirely, and properties acquired by the purchase of a whole business in an arm's-length deal were made eligible for certification. Later, in November, 1951, properties in existence, under construction or under contract, which the taxpayer as of April 10, 1951 was under a genuine obligation to purchase were made eligible for certification.

Withdrawal of Scheme in 1952

While the period of deferment announced in the original statement was to be for four years, the impact of the defence effort on the economy for a variety of reasons, including the adoption of other measures of restraint, was less severe than expected. It therefore became possible to withdraw the scheme at the end of 1952. In exact terms it ceased to apply to any new acquisitions of assets on or after January 1, 1953, and for assets acquired in the period from April 10, 1951 to December 31, 1952, depreciation could commence to be taken in the fiscal year of the tax-

payer beginning on or after January 1, 1953.

No official report of this scheme has yet been issued to the public. However, an article in *The Canadian Tax Journal* (May-June, 1953, p. 277), by the Associate Deputy Minister of Trade and Commerce, Mr. M. W. Sharp, gives information that may be regarded as official. Some attempt is also made by Mr. Sharp in this article to assess the effectiveness of the experiment.

(b) Other Measures

(i) *Maritime Coal Production Assistance Act.* This Act, which came into force on January 7, 1950, grants assistance by way of loans to coal operators for the purpose of carrying out capital projects. Section 5 provides in effect that the taxpayer may take an additional capital cost allowance for these projects to the extent that he has made repayments of such a loan in the year. The additional annual allowance may not exceed 30 per cent of the undepreciated capital cost, and the total allowance may not exceed the total capital cost.

(ii) *Commercial Vessels.* Under the Canadian Vessel Construction Assistance Act

special provision has been made since January 1, 1949, for the amortization of the capital cost or the conversion cost of vessels, as defined in the Canada Shipping Act. For a new vessel constructed in Canada since January 1, 1949, in lieu of the capital cost allowance otherwise applicable the taxpayer may deduct up to one-third of the capital cost each year, the total deductions not to exceed the total capital cost. Similarly where conversion or major alterations of a vessel have been made after January 1, 1949, in lieu of other deductions the taxpayer may take up to one-third of the cost of such changes each year, again with the limitation that the deduction so taken may not exceed the total cost incurred. Both the new vessel and the converted vessel are treated as a separate class of asset for purposes of the other operations of the capital cost allowance system.

(iii) *Fishing Vessels.* The special wartime allowance for fishing schooners mentioned above (which was terminated in 1944) has been revised by a provision under the Income Tax Regulations. In substance taxpayers owning such fishing schooners may, each year over a five year period, deduct any amount at their discretion for depreciation, provided of course that they may not deduct more in total than the capital cost of the vessel.

NATURAL RESOURCES

It can only be mentioned in passing that changes in the provisions of the Income Tax Act related to natural resources in Canada have been frequent and substantial, and on several occasions have involved the terms under which pre-production expenses, in-

tangible overhead costs, and expenditures on fixed assets could be amortized. This aspect of the subject deserves extensive separate treatment, and could not be properly dealt with in a brief outline of general developments such as the present one.

SUMMARY

Observations of a general nature have deliberately been held to a minimum in this article, since my purpose was primarily to present a description of the actual phases of changes in depreciation over 36 years of income tax history in Can-

ada. However, the following comments are almost self-evident:—

1. In legal terms the transition has towards a position of greater certainty for the taxpayer. The allowance is now established as a right dependent

only on the issuance of appropriate regulations by the Governor in Council, whereas previously it depended entirely on the discretion of the Minister. The fact that rates are now publicly issued has also meant a greater degree of certainty for the taxpayer.

2. In accounting terms the replacement of "straight line depreciation", which was accepted without question by almost all taxpayers over a long period of years, by the new scheme of "diminishing balance amortization of the capital cost of property" is an innovation that has met with less general approval. Some misgivings were at first expressed regarding the adoption of the diminishing balance method, which has shortcomings as a general accounting arrangement. However the principal protest is now aimed against the requirement that in effect the tax return and the company accounts show the same depreciation deduction.

Other lesser objections have been mentioned earlier.

3. In economic terms the trend, particularly in the last decade, has been strongly towards the use of the depreciation mechanism as an instrument of economic control. Evidence of the effect of this experiment of course is not available, but the general results are indicated by the fact that in the post-war period the annual aggregate rate of write-off for fixed assets appears to have increased by almost two-thirds. This statement is based on information derived from the analysis of corporate balance sheet and current account data presented in the official "Taxation Statistics". For 1945 and 1946 the rate of write-off expressed as a percentage of buildings and equipment at the values reported to the Taxation Division is estimated to be about 3.59%. For 1951 the comparable rate is about 5.79%, or about 61% higher.

RECENT TAX CASES

Noak v. M.N.R.

(*Supreme Court of Canada, Kerwin, Rand, Kellock, Estey and Locke JJ.*,
June 26, 1953)

Income or Capital Gain — Series of purchases and sales of houses — Whether business or investment — Price payable by instalments — Method of computing profits — Onus

Appellant worked for a number of years at various employments and saved money. From 1938 on she carried on a meat business in partnership with her two brothers and spent all her working days in the meat store. Commencing in 1930 she began occasionally to advance money on loans, mortgages, and agreements for sale. In May 1937 she purchased a house for \$1,400 and sold it in June for \$2,200. During the years 1938 to 1945 she carried out some 53 transactions of purchase and sale of real es-

tate, to the carrying out of which she devoted all her spare time. Before buying any property she would probably inspect as many as 30, and she improved some of the properties for purposes of sale. In a number of cases the sale was apparently arranged before she made the purchase as the sale followed immediately afterwards. She testified that since 1940 she had capital gain in view in the making of her purchases. In most cases she took only a small down payment, the balance of the price being payable over a

period of years in monthly instalments with or without interest. In the interval between the purchase and sale of a house she sometimes rented the house. She had no office and did all the necessary work in connection with these transactions at her home at night and on Sundays.

Appellant was assessed to excess profits tax in respect of the difference between the value of the securities received by her on the sales of properties made in the years 1943, 1944 and 1954 in excess of the cost of such properties to her. Her appeal to the Exchequer Court was dismissed by Hyndman D.J. ([1952] Tax Rev. 14) who held that the only reasonable inference from the evidence was that during the years in question she followed a course or system which had in view the making of gain from her purchases of real estate, and that apart from her evidence the number of transactions and the close proximity of sale to purchases forced the conclusion that her idea in purchasing involved the intention of selling with the object of profit and not for investment purposes only. He accordingly held that she was carrying on a business in real estate. He also held that appellant had not satisfied the onus of proving that the Minister's

method of computing her profit was erroneous. Appellant appealed to the Supreme Court of Canada.

Held, the appeal must be dismissed.

Per Kerwin, Estey and Locke J.J.—The number of transactions entered into by appellant and, in some cases, the proximity of the purchase to the sale of the property indicates that she was carrying on a business and not merely realizing or changing investments. Nothing has been shown to indicate that the method of assessment was wrong. *Argue v. MNR* [1948] S.C.R. 467; *Campbell v. MNR* [1953] 1 S.C.R. 3, referred to.

Per Rand J. — The evidence supported the trial Judge's conclusion that the series of transactions carried out by appellant amounted to a carrying on of a "business" as that word is used in the EPT Act.

Per Kellock J. — The trial Judge properly appreciated the facts and properly directed himself with regard to the law in finding that the only reasonable inference from the evidence was that appellant had followed a course or system which had in view not just investment but the intention to make profits by sale, and that in so doing she was engaged in the carrying on of a business. *Californian Copper Synd. Ltd. v. Harris* (1904) 5 T.C. 159 at p. 165; *Cooper v. Stubbs* [1925] 2 K.B. 753 per Atkin L.J. at p. 772, considered; *Argue v. MNR* *ubi supra*, distinguished.

Appeal dismissed

Sutton Lumber & Trading Co. v. M.N.R.

(*Supreme Court of Canada, Taschereau, Estey, Locke, Cartwright and Fauteux JJ.*, June 26, 1953)

Income or Capital Gain — Lumber company — Objects in memorandum of association — Actual business carried on — Sale of timber tract — Whether sale of capital asset — Intention of company's directors — Evidence — EPT Act (1946)

Appellant company was incorporated by registration of its memorandum of association under the British Columbia Companies Act in 1893 and was reincorporated under the B.C. Companies Act of 1897 in 1902. Its memorandum of association, as was customary at that

time, set out a very lengthy list of contemplated objects and powers, amongst them being to acquire, operate and turn to account timber limits, and to sell, lease, sublet or otherwise dispose of them or any part thereof. Initially the company engaged in cutting lumber from

lands owned by it, but in 1902 and subsequently new men acquired control of or interests in the company, and it then acquired two large timber tracts in the Province, one consisting largely of fir and the other principally of cedar, and it erected a saw mill near the cedar tract and conducted operations there in 1907, which, however, resulted in a loss. Thereafter the company carried on no substantial operations for some years. In 1937 and 1938 and in 1943 it sold certain stumpage rights, and in 1945 it sold the fir tract to another company for a net profit of \$95,000, upon which amount it was assessed to excess profits tax in 1946. At the hearing evidence of a company official as to the business which those who controlled the company between 1902 and 1923 intended to conduct was held to be inadmissible as the official did not become a director of the company until 1923 although he was closely associated with the directors during the period 1902 to 1923; his evidence as to the business which the company proposed to carry on after 1923 was admitted, however. The company's appeal was dismissed by Archibald J. in the Exchequer Court of Canada [1952] Tax Rev. 208, on the ground that the company had failed to satisfy the onus of proving that it was its intention to confine its operations to cedar only, and that in view of the power to sell timber limits in its memorandum of association the sale of the fir tract was in the ordinary course of the company's business. On appeal to the Supreme Court of Canada, the Court found that notwithstanding the trial Judge's erroneous rejection of the evidence of the company's official as to the intentions of the company from 1902 to 1923, the record of the activities of the company during that period was consistent only with the view that its intention was to carry on the business of operating a saw mill for the production of cedar lumber from its

cedar tract, that the evidence relative to the subsequent period demonstrated that those then in control of the company had not departed from that intention, and that the sale of the fir tract was made to obtain capital to enable the company to retain the cedar tract.

Held, allowing the appeal, the fir tract sold in 1945 was an asset in which the company had invested with a view to cutting the merchantable timber into lumber in a mill to be erected by it, and the sale was merely a realization upon one of its capital assets which was not required and did not fit into the company's plans for the operation of its main property and one which was not made in the course of carrying on the business of buying, selling or dealing in timber limits.

"The question to be decided is not as to what business or trade the company might have carried on under its memorandum, but rather what was in truth the business it did engage in."

"The existence of [the power in the company's memorandum to sell, lease, sublet or otherwise dispose of timber limits] does not afford evidence that the company was, in truth, carrying on the business of buying timber stands or acquiring leases and selling them with a view to profit. The evidence submitted by the appellant in the present case demonstrates the contrary." (*Anderson Logging Co. v. The King* [1925] S.C.R. 45, distinguished on the ground that as there was in that case no evidence as to the nature of the business actually carried on by the company or of anyone having knowledge of the directors' design in purchasing the limits which were later sold, the company had failed to satisfy the onus upon it of proving that the assessment was wrong).

Com'r of Taxes v. Melbourne Trust Ltd. [1914] A.C. 1001, per Lord Dunedin at p. 1010, quoting with approval *Californian Copper Syndicate Ltd. v. Harris* (1904) 5 T.C. 159, applied.

Appeal allowed

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